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1

EASTERN

F.O.
371

1948

PALESTINE

FILE No. 7

pp to 1343

68604

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1948

E

PALESTINE

E 288 2
7 JAN

Registry Number E288/7/31.
FROM C Rowe-Dutton
No. Key
Dated Command
Received in Registry 7 Jan.

Palestine and the Sterling Area.
Copies of two letters from C. Rowe-Dutton, Key & Sir S. Caine, H.C. of 1st and 3rd Jan. enclosing pre-draft of telegram to M/C dealing with Palestine position in relation to the Sterling area.

Last Paper.
268

References.
68604

(Print.)

(How disposed of.)
Copy. Sir S. Caine H.C.
from, Sir J. Hall. Colonial
3 Jan.
Copy. C. Rowe Dutton Esq.
3 Jan.

(Action completed.) 21/1
(Index.) 19/1/48

Next Paper.
(539)
5-31

(Minutes.)

E.R. Dept.
(Mr Trevelyan)
Have we now had the Treasury's final draft of a Statement about blocking in the Sterling area?
J.B. Jan 8

Nothing more yet. The SoS has for colonies has now had a reply from Palestine. I shall make a further attempt to get material from the Treasury.
H Trevelyan.
11/1/48.
J.B. Jan 20

26513 F.O.P.

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Nothing to be Written in this Margin.

Minutes.

E 3

Please see the two letters from Mr. Rowe-Dutton to Sir S. Caine, below.

I had already informed the Treasury that we had no objection to the despatch of the first telegram and had written a draft reply on it, when the second telegram arrived.

As the matter is now very urgent, I have informed Sir S. Caine and the Treasury that we agree to the despatch of the revised form of the telegram. It has been extremely difficult for the Treasury to get the Bank's agreement to this telegram and I do not think that we want to cause further difficulties by suggesting amendments to it, since it is only a request for the views of the High Commissioner. At the same time, we have certain comments which might need a follow-up telegram and these are explained in the attached draft to Sir S. Caine. I am Sir E. Hall-Patch. I have discussed with Eastern Dept., who agree.

H Trevelyan.

H. Trevelyan.

2nd January, 1947.

Mr Makins,
Sir E. Hall-Patch.

2/1.

I agree.

2/1/48

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Second letter.

4

With Mr. E.Rowe-Dutton's Compliments

E 280
7 JAN

2nd January, 1948.

Dear Sydney,

I enclose herewith a re-draft of the Palestine telegram, which we went through with Bank of England people late last night with a fine tooth comb. I do not think the sense is very substantially altered, but the technical material is, I think, a good deal clearer.

So far as we are concerned, we should now be happy with it.

Yours sincerely,

(Sgd) E.Rowe-Dutton

Sir Sydney Caine, K.C.M.G.,

Colonial Office.

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16479/35/47

OTHER TELEGRAM O.T.P.

IMPORTANT

No.....Top Secret

HIGH COMMISSIONER
PALESTINE

Palestine's position in relation to the sterling area is under urgent consideration here. At present Palestine is part of the sterling area, which means that the local Exchange Control, acting within the rules laid down, and subject to obtaining special authority for some reserved transactions, is free to permit payments to residents outside the sterling area for approved purposes, and holders in Palestine of sterling balances are free to transfer them to other parts of the sterling area without any specific permit.

2. H.M.G. are disposed to think that before the Mandate is terminated, it will be necessary to put an end to Palestine's membership of the sterling area. The effect of this would be that it would no longer be the responsibility of the U.K. to supply Palestine with the means of making purchases from countries outside the sterling area. Her needs would have to be met from Palestine's own resources of foreign exchange, including the dollars made available by sympathisers in the United States. It is also contemplated that it would be necessary to "freeze" existing Palestine sterling balances so as to prevent them from being too rapidly exhausted in payment for imports, or from being transferred to other parts of the sterling area where control by H.M.G. on the rate of their use would be less easy to operate.

/3. The

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3. The reasons for this policy are as follows. His Majesty's Government have complete confidence in the present Palestine Exchange Control. They can at present have no such confidence in the exchange control mechanism of the prospective successor states, and would fear excessive demands on the small supplies of foreign currencies and gold which are the central reserve of the sterling area. While they would not regard the meeting of modest demands for exchange of sterling into foreign currency as out of the question, they must retain complete control over it. So far as the expenditure of sterling by Palestine in the sterling area is concerned, while they have no desire to repudiate the claims which Palestine holders of sterling balances have to turn those balances into goods, it is not practicable that those balances should be turned into goods at a very rapid rate. Nor would it be in accordance with the interests of Palestine itself that those balances should be dissipated too rapidly. Whatever the future may hold for Palestine, one thing can be taken as certain and that is that it will be in acute economic difficulties, and that if it dissipates its sterling balances, its ability to carry on international trade, on which it is wholly dependent for its continued existence, will have disappeared.

4. Some indication of the speed at which Palestine's total sterling balances have been shrinking is given by the fact that they amounted to the following amounts at the following dates:-

/30th September, 1946

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30th September, 1946	£121.5 million
30th June, 1947	£115.2 million
31st October, 1947	£100.8 million

The fall during October was £5.5 million, including a refund of £0.7 million in currency funds, and £5.5 million in commercial banking funds.

5. The proposal is to block Palestine's sterling balances except those of private individuals, but simultaneously to release a working balance of a reasonable amount which would be made available to the commercial banks (see below). New sterling earnings after the zero date would also be made available.

6. The sterling assets of the Currency Board are in rather a special position. It is equally necessary to control them, but to do so in the same way as those of the banks and other institutions operating in Palestine involves:-

(i) treating the Board as a resident in Palestine (which it is not);

(ii) formal blocking of the assets (which is open to some political objection);

(iii) some administrative work in Palestine vis-a-vis the exchange control there, which the local officials of the Board may not be in a position to continue to perform.

On the other hand, if the Board is treated as a resident in the U.K., no formal blocking of its balances will be necessary; it will be able to pay sterling to a resident in Palestine only with permission of the U.K. Exchange Control. It is accordingly proposed to allow it to continue to

/function

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function, as a resident in the U.K., but to allow it to pay sterling due in redemption of notes only to the blocked account of one or other of the banks operating in Palestine. The result would be that a holder of Palestine notes could, as now, transform them into a bank deposit of Palestine pounds. He could use such a deposit to acquire free sterling from a Palestine bank only with permission of the local control, and within the limits of the total amount of free sterling at the disposal of the Palestine banks.

7. This appears to us the course least open to misrepresentation, and best designed to reconcile the fact that the sterling assets of the Currency Board are the security behind the note issue with the fact that H.M.G. cannot afford to allow an excessive amount of Palestine's sterling assets to be dissipated in paying for imports or otherwise ceasing to be available to meet the interests of Palestine as a whole.

8. The Currency Board would continue to accept notes for redemption on the above basis, though the mechanics may have to be adjusted if it proves impossible for the Board to take delivery in Palestine. If the banks required additional notes, e.g. to meet a demand for the withdrawal of deposits in Palestine, they could be obtained in the normal way against the payment of sterling to the Currency Board, and for this purpose payments of sums drawn from the blocked sterling accounts of the Banks could be accepted.

9. When a new Currency Issuing authority is set up, its relations with the existing Board would no doubt have to be settled with the United

/Nations

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Nations Commission.

10. I should be grateful if you would let me have your observations on what is said above, and in particular on the date at which you think it is desirable that Palestine should be removed from the sterling area, and on the initial amount of the sterling balances which should be released.

11. It will also be for you to supply us with a list of the banks to which these measures should apply, and the names of their London correspondents. In our view, it should be possible not to block any sterling now held in London by individuals (including trading companies) and to block only the sterling balances of banks. We should contemplate that the releases to be apportioned among the banks should add up to the following:-

(i) a non-recurrent amount of say £4 million to serve as working capital; to which we would be prepared to add the ascertained total of existing confirmed credits, as a round figure.

(ii) a sum of say £3 million as a release to cover expenditure up to 15th May, i.e. the date of handing over;

Can you make suggestions as to the distribution among the list of banks of the two sums suggested? It would not matter if the initial releases were on a rough and ready basis, well within the total for the period, since they could be adjusted later in the light of experience.

12. I assume that simultaneously with action here on the lines set out above, you would put into effect the measures already planned to extend exchange control to cover transactions in sterling by Palestine residents.

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Fair letter (Superseded).

10

With Mr. E.Rowe-Dutton's Compliments

1st January, 1948.

Dear Sydney,

I enclose a re-draft of the telegram to the High Commissioner in the light of yesterday's discussion, together with a copy of a letter I have written to Siepmann.

I am copying to Trevellyan of the Foreign Office and Clauson of the Colonial Office.

I suggest it should not be despatched until we have given the Bank an opportunity to react.

Yours sincerely,

(Sgd) E.Rowe-Dutton

Sir Sydney Caine, K.C.M.G.,
Colonial Office.

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1st January, 1948.

Dear Siepmann,

You will by now have received an account of our discussion about Palestine last night, which I am sure will have convinced you that it is as unnecessary as it is undesirable to block the sterling assets of the Palestine Currency Board, and that the mechanism which we have proposed and explained at greater length last night is the best available in the circumstances.

There remains one difficulty to which I have already drawn your attention, namely the lack of any authority who can settle the amounts to be left available, i.e. on the No. 2 Accounts to the various banks etc. in Palestine. On this we are consulting the High Commissioner in a telegram, of which I enclose a draft.

We must get this telegram off today.

I still feel that you can, if you will, give us considerable assistance on this point, since I take it that you have under your hand a statement of the London balances of the various banks operating in Palestine, who will be the people who will have part of their sterling blocked. I doubt whether the Governor will be able to suggest any very convincing criterion for dividing out the free money and we ought perhaps to make an interim allocation on the basis of X per cent. of the balances of each particular institution. I should be most grateful if you would have this examined very urgently with a view of indicating what X per cent. would amount to. If X is say 5 or such other figure as would make the interim releases total up to say £2 million, an equal amount might be allowed to each institution for working funds; and no doubt and no doubt we shall have to release from No.2 Accounts sums to take care of the London credits.

H.A.Siepmann, Esq.,
Bank of England.

/All this

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16479/35/47

12

CYPHER TELEGRAM O.T.P.

IMPORTANT

No.....Top Secret

HIGH COMMISSIONER

PALESTINE

Palestine's position in relation to the sterling area is under urgent consideration here. At present Palestine is part of the sterling area, which means that the local Exchange Control, acting within the rules laid down, and subject to obtaining special authority for some reserved transactions, is free to permit the exchange of sterling and foreign currencies for approved purposes, and holders in Palestine of sterling balances either in Palestine or elsewhere are free to transfer them to other parts of the sterling area without any specific permit.

(a sentence dropped out) —

2. The effect of this would be that it would no longer be the responsibility of the U.K. to supply Palestine with the means of making purchases from countries outside the sterling area. If such needs arise, they would have to be met from Palestine's own resources of foreign exchange, including the dollars made available by sympathisers in the United States. It is also contemplated that it would be necessary to "freeze" existing Palestine sterling balances so as to prevent them from being too rapidly exhausted in payment for imports, or from being transferred to other parts of the sterling area where control by H.M.G. on the rate of their use would be less easy to operate.

3. The reasons why His Majesty's Government

/are

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are disposed to think that this action will be necessary are the following. So far as expenditure outside the sterling area is concerned, His Majesty's Government have complete confidence in the present Palestine Exchange Control. They can at present have no such confidence in the Exchange Control of the prospective successor states, and would fear excessive demands on the small supplies of foreign currencies and gold which are the central reserve of the sterling area. While they would not regard the meeting of moderate demands for exchange of sterling into foreign currency as out of the question, they would wish the control to be exercised by the Bank of England and not by some local authority. So far as the transfer of sterling from Palestine to other countries in the sterling area is concerned, while they have no desire to repudiate the claims which Palestine holders of sterling balances have to turn those balances into goods, it would not be consonant with the interests of the rest of the sterling area that those balances should be turned into goods at a very rapid rate. Nor would it be in accordance with the interests of Palestine itself that those balances should be dissipated too rapidly. Whatever the future may hold for Palestine, one thing can be taken as certain and that is that it will be in acute economic difficulties, and that if it dissipates its sterling balances, its ability to carry on international trade, on which it is wholly dependent for its continued existence, will have disappeared.

4. Some indication of the speed at which Palestine's total sterling balances have been

shrinking

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shrinking is given by the fact that they amounted to the following amounts at the following dates:-

30th September, 1946	£121.5 million
30th June, 1947	£115.2 million
31st October, 1947	£100.8 million.

The fall during October was £3.5 million, including a refund of £0.7 million in currency funds, and £3.5 million in commercial banking funds.

5. His Majesty's Government are therefore disposed to think that it will be necessary to remove Palestine from the sterling area in the near future, and at least before the termination of the mandate, and to block Palestine's sterling balances, apart from a working balance of a reasonable amount which would be put into a drawing account which could be used freely. Any sterling earnings after the zero date would also go into this account and could equally be used freely.

6. The sterling assets of the Currency Board are in rather a special position. It is equally necessary to control them, but to do so in the same way as those of the banks and other institutions operating in Palestine involves:

(i) treating the Board as a resident in Palestine (which it is not);

(ii) formal blocking of the assets (which is open to some political objection);

(iii) some administrative work in Palestine vis-a-vis the exchange control there, which the local officials of the Board may not be in a position to continue to perform. On the other hand, if the Board is treated

/as

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as a resident in the U.K., no formal blocking of its balances will be necessary; it will be able to pay sterling to a resident in Palestine only with permission of the U.K. Exchange Control. It is accordingly proposed to allow it to continue to function, as a resident in the U.K., but to allow it to pay sterling due in redemption of notes only to the blocked account of one or other of the banks operating in Palestine. Apart from managing its investments this would be its only permitted activity. The result would be that a holder of Palestine notes could, as now, transform them into a bank deposit of Palestine pounds, he could use such a deposit to acquire free sterling from a Palestine bank only with permission of the local control, and within the limits of the total amount of free sterling at the disposal of the Palestine banks.

7. This appears to us the course least open to misrepresentation, and best designed to reconcile the fact that the sterling assets of the Currency Board are the security behind the note issue with the fact that H.M.G. cannot afford to allow an excessive amount of Palestine's sterling assets to be dissipated in paying for imports or otherwise ceasing to be available to meet the interests of Palestine as a whole.

8. So far as the mechanism of the Currency Board is concerned, notes for redemption on the above basis would be accepted in Palestine. If the banks required additional notes to meet a demand for the withdrawal of deposits in Palestine, they could be obtained against the payment to the Currency Board of sums drawn from the blocked sterling accounts of the Banks.

/9. If

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9. If when a New Currency Issuing authority is set up, its relations with the existing Board would no doubt have to be settled with the United Nations Commission.

10. I should be grateful if you would let me have your observations on what is said above, and in particular on the date at which you think it is desirable that Palestine should be removed from the sterling area, and in particular on the date at which you think it is desirable that Palestine should be removed from the sterling area, and on the initial amount of the sterling balances which should be placed in a drawing account and left unblocked.

11. It will also be for you to advise on the list of banks and other institutions to which these measures should apply. In our view, it should be possible to free completely any sterling held in London by individuals (including trading companies) and to block only the sterling balances of banks and similar institutions. We should contemplate distributing among such holders of sterling -

(i) a non-recurrent amount of say £4 million to serve as working capital;

(ii) a sum of say £3 million as a release to cover expenditure up to 15th May, i.e. the date of handing over;

(iii) in addition sufficient funds to meet existing confirmed credits would be set free as required.

Can you make suggestions as to the distribution among the list of suitable institutions of the two

/sums

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sums suggested? If events make it desirable to act quickly, we might have to proceed by instructing all the sterling assets of the banks listed to be blocked, less a provisional amount of say 5 per cent. to be credited to free (or No.1) accounts pending further allocations within the limits suggested above.

12. I assume that simultaneously with action here on the lines set out above, you would put into effect the measures already planned to control all sterling in the hands of Palestine residents.

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Registry No.

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Secret.
Confidential.
Restricted.
Open.

H.T.

OUT FILE

18

FOREIGN OFFICE,

S.W.1.

3rd January 1948

Draft.
Sir S. Caine, K.C.M.G.
Colonial Office.

From:
Sir E.Hall-Patch

Copy to:

E. Rowe-Dutton, Esq.,
Treasury.

Rowe-Dutton's letter of the 2nd January enclosing a redraft of the Palestine telegram.

We did not make any comments before the despatch of the telegram, as we were anxious that it should be sent off without further delay. It is, of course, urgent to get a decision on the financial questions in order that we can instruct our representative on the United Nations. The Commission is being constituted on January 9th and he is likely to have to meet them on the 12th. Although he may be able to avoid discussing financial questions for some days, it would be of advantage if we could get the instructions to him, about that time.

We have the following comments upon points in the telegram.

1. Paragraph 9 is possibly a concession to the Bank's view of what is likely to happen, which at the recent meeting we all regarded as somewhat unrealistic. We do not want to press our reservations about this paragraph, though we consider that there is in fact considerable doubt about how new currency issuing authorities will be established and whether we shall require to discuss this question with the United Nations Commission.

2. With regard to paragraph 10, we feel that Cadogan will be in a difficult position if we do not block the balances and remove Palestine from the Sterling Area before he starts financial discussions with the Commission. Otherwise/

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wise, there is likely to be considerable controversy and there will probably be leaks which will minimize the effectiveness of the operation.

This is an official view, which is subject to the approval of the Secretary of State. We propose to get his instructions on the question of blocking the balances and removing Palestine from the Sterling Area, as soon as we receive from the Treasury the revised draft of the statement ~~which will be issued when~~ announcing the decision ~~is announced~~.

If you and the Treasury agree with the Gregory proposals for the timing of the blocking of the sterling balances and the exclusion of Palestine from the Sterling Area, we suggest that you should send a follow-up telegram to the High Commissioner giving this as the official view, subject to Ministerial approval, and explaining that we propose this timing in view of the difficulties which will be caused if this action is delayed after the talks with the Commission begin. Otherwise, he may propose a later date and delay will be caused by the need for further consultation.

I am sending a copy to Mrs Collier & Rose-Bellew.

Shiff 2/1/48

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FOREIGN OFFICE, S.W.1.

OUT-GIC 3rd January, 1948.

19

Rowe-Sutton's letter of the 2nd January enclosing a redraft of the Palestine telegram.

We did not make any comments before the despatch of the telegram, as we were anxious that it should be sent off without further delay. It is, of course, urgent to get a decision on the financial questions in order that we can instruct our representative on the United Nations. The Commission is being constituted on January 9th and he is likely to have to meet them on the 12th. Although he may be able to avoid discussing financial questions for some days, it would be of advantage if we could get the instructions to him about that time.

We have the following comments upon points in the telegram.

1. Paragraph 9 is possibly a concession to the Bank's view of what is likely to happen, which at the recent meeting we all regarded as somewhat unrealistic. We do not want to press our reservations about this paragraph, though we consider that there is in fact considerable doubt about how new currency issuing authorities will be established and whether we shall require to discuss this question with the United Nations Commission.

2. With regard to paragraph 10, we feel that Gidoyan will be in a difficult position if we do not block the balances and remove Palestine from the Sterling Area before he starts financial discussions with the Commission. Otherwise, there is likely to be considerable controversy and there will probably be leaks which will minimise the effectiveness of the operation. This is an official view, which/

Sir S. Caine, K.B.E., C.M.G.,
Colonial Office.

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which is subject to the approval of the Secretary of State. We propose to get his instructions on the question of blocking the balances and removing Palestine from the Sterling Area, as soon as we receive from the Treasury the revised draft of the statement announcing the decision.

If you and the Treasury agree with the foregoing proposals for the timing of the blocking of the Sterling balances and the exclusion of Palestine from the Sterling Area, we suggest that you should send a follow-up telegram to the High Commissioner giving this as the official view, subject to ministerial approval, and explaining that we propose this timing in view of the difficulties which will be caused if this action is delayed after the talks with the Commission begin. Otherwise, he may propose a later date and delay will be caused by the need for further consultation.

I am sending a copy of this letter to Rowe-Dutton.

(Signed) E. L. Hall-Patch.

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7

1948

E

PALESTINE

E 539

13 JAN

20

Registry Number E 539/7/51

FROM

C.O.

No. Cypher.

Dated

Received in Registry 13 Jan

Palestine and the Sterling Area

C.O. tel to Palestine 19 of Jan 3. Immediate
Palestine Britain in relation to the
Sterling Area. Letter will explain
to import of the Sterling Area, etc.

Last Paper.

533 (288)

References.

(Print.)

(How disposed of.)

Sent to Rowe Dutton
7/1
from Sir E Hall Patch
15/1

(Minutes.)

Pal. P.P. 40 7/1.

I understand that the Colonial Office have drafted a letter to Mr. Rowe-Dutton of the Treasury recommending that we take the first of the three dates mentioned in the High Commissioner's telegram No. 40, ie. February 1st, for an announcement about the exclusion of Palestine from the Sterling Area and the blocking of balances. In the event of that date being agreed there is some urgency for us to safeguard the position of Transjordan and, after discussion with Mr. Trevelyan, I attach a draft letter to the Treasury.

J. G. S. Beith.
14th January, 1948.

Economic Relations Department.

The letter from Colonial Office has been received, and I attach a draft from Sir E. Hall-Patch to Mr Rowe-Dutton for your agreement. Paras 1 & 3 have been approved by him, & I have added a para about Transjordan on the lines of my minute to you on the subject.

H Trevelyan
15/1.

Econ Dept (Mr Beith).

See E 533/G & minute
JB Jan 16

R.T.O.

(Action completed.) 20/1

(Index.) 19/1/48

Next Paper.

610

26513 F.O.P.

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Pol. 80. Affiliation no 229 of 1/1
Pol 80 Mar 21
1932
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OUTWARD TELEGRAM

19 21

Enter soon
HP

E 539

13 JAN

16479/35/47

Cypher (O.T.P.)

TO PALESTINE (General Sir A. Cunningham)

FROM S. OF S., COLONIES.

Sent 3rd January, 1948. 10.30 hrs.

IMMEDIATE

No. 19 Top Secret.

Palestine's position in relation to the sterling area is under urgent consideration here. At present Palestine is part of the sterling area, which means that the local Exchange Control, acting within the rules laid down, and subject to obtaining special authority for some reserved transactions, is free to permit payments to residents outside the sterling area for approved purposes, and holders in Palestine of sterling balances are free to transfer them to other parts of the sterling area without any specific permit.

2. His Majesty's Government are disposed to think that before the Mandate is terminated, it will be necessary to put an end to Palestine's membership of the sterling area. The effect of this would be that it would be longer be the responsibility of the United Kingdom to supply Palestine with the means of making purchases from countries outside the sterling area. Such needs would have to be met from Palestine's own resources of foreign exchange, including the dollars made available by sympathisers in the United States. It is also contemplated that it would be necessary to "freeze" existing Palestine sterling balances so as to prevent them from being too rapidly exhausted in payment for imports, or from being transferred to other parts of the sterling area where control by His Majesty's Government on the rate of their use would be less easy to operate.

3. The reasons for this policy are as follows. His Majesty's Government have complete confidence in the present Palestine Exchange Control. They can at present have no such confidence in the exchange control mechanism of the prospective successor states, and would fear excessive demands on the

small/

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13 JAN 1948
SENT TO DEPT.
13 JAN 1948

small supplies of foreign currencies and gold which are the central reserve of the sterling area. While they would not regard the meeting of modest demands for exchange of sterling into foreign currency as out of the question, they must retain complete control over it. So far as the expenditure of sterling by Palestine in the sterling area is concerned, while they have no desire to repudiate the claims which Palestine holders of sterling balances have to turn those balances into goods, it is not practicable that those balances should be turned into goods at a very rapid rate. Nor would it be in accordance with the interests of Palestine itself that those balances should be dissipated too rapidly. Whatever the future may hold for Palestine, one thing can be taken as certain and that is that it will be in acute economic difficulties, and that if it dissipates its sterling balances, its ability to carry on international trade, on which it is wholly dependent for its continued existence, will have disappeared.

4. Some indication of the speed at which Palestine's total sterling balances have been shrinking is given by the fact that they amounted to the following amounts at the following dates:-

30th September, 1946	£121.5 million.
30th June, 1947	£115.2 million.
31st October, 1947	£100.8 million.

The fall during October was £5.5 million, including a refund of £0.7 million in currency funds, and £3.5 million in commercial banking funds.

5. The proposal is to block Palestine's sterling balances except those of private individuals, but simultaneously to release a working balance of a reasonable amount which would be made available to the commercial banks (see below). Any sterling earnings after the zero date would also be made available.

6. The sterling assets of the Currency Board are in rather a special position. It is equally necessary to control them, but to do so in the same way as those of the banks and other

institutions/

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institutions operating in Palestine involves:-

(i) treating the Board as a resident in Palestine (which it is not);

(ii) formal blocking of the assets (which is open to some political objection);

(iii) some administrative work in Palestine vis-a-vis the exchange control there, which the local officials of the Board may not be in a position to continue to perform.

On the other hand, if the Board is treated as a resident in the United Kingdom no formal blocking of its balances will be necessary; it will be able to pay sterling to a resident in Palestine only with permission of the United Kingdom Exchange Control. It is accordingly proposed to allow it to continue to function, as a resident in the United Kingdom but to allow it to pay sterling due in redemption of notes only to the blocked account of one or other of the banks operating in Palestine. The result would be that a holder of Palestine notes could, as now, transform them into a bank deposit of Palestine pounds. He could use such a deposit to acquire free sterling from a Palestine bank only with permission of the local control, and within the limits of the total amount of free sterling at the disposal of the Palestine banks.

7. This appears to us the course least open to misrepresentation, and best designed to reconcile the fact that the sterling assets of the Currency Board are the security behind the note issue with the fact that His Majesty's Government cannot afford to allow an excessive amount of Palestine's sterling assets to be dissipated in paying for imports or otherwise ceasing to be available to meet the interests of Palestine as a whole.

8. The Currency Board would continue to accept notes for redemption on the above basis, though the mechanics may have to be adjusted if it proves impossible for the Board to take delivery in Palestine. If the banks required additional notes, e.g. to meet a demand for the withdrawal of deposits in Palestine, they could be obtained in the normal way against the payment of sterling to the Currency Board, and for this purpose payments of sums drawn from the blocked sterling accounts of the Banks could be accepted.

9./

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9. When a new Currency Issuing authority is set up, its relations with the existing Board would no doubt have to be settled with the United Nations Commission.

10. I should be grateful if you would let me have your observations on what is said above, and in particular on the date at which you think it is desirable that Palestine should be removed from the sterling area, and on the initial amount of the sterling balances which should be released.

11. It will also be for you to supply us with a list of the banks to which these measures should apply, and the names of their London correspondents. In our view, it should be possible not to block any sterling now held in London by individuals (including trading companies) and to block only the sterling balances of banks. We should contemplate that the releases to be apportioned among the banks should add up to the following:-

(i) a non-recurrent amount of say £4 million to serve as working capital; to which we would be prepared to add the ascertained total of existing confirmed credits, as a round figure.

(ii) a sum of say £3 million as a release to cover expenditure up to 15th May, i.e. the date of handing over;

Can you make suggestions as to the distribution among the list of banks of the two sums suggested? It would not matter if the initial releases were on a rough and ready basis, well within the total for the period, since they could be adjusted later in the light of experience.

12. I assume that simultaneously with action here on the lines set out above, you would put into effect the measures already planned to extend exchange control to cover transactions in sterling by Palestine residents.

13. Final decisions on above proposals have not yet been taken, pending further consultations with my colleagues after receipt of your views on the points raised, but as events are moving fast I should appreciate having those comments quickly.

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OUTWARD TELEGRAM

23

Distributed to:-

D.44
Secretary of State
Sir T. Lloyd
Mr. D. Rees Williams
Sir S. Caine
Sir C. Jeffries
Mr. Holding
Mr. Martin
Mr. Trafford Smith

Mr. Gutch
Mr. Mathieson
Mr. Higham
Mr. Holmer
Mr. Dale
Mr. Eastwood
Mr. Butters

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8

INWARD TELEGRAM

Cypher (O.T.P.) E 288/7/71

Enter soon. 22/24 (R.) with 19 to Palestine.

FROM PALESTINE (General Sir A. Cunningham)

TO S. OF S., COLONIES.

D. 7th January, 1948.
R. 7th " " 21.40 hrs.

IMMEDIATE

No.40 Top Secret.

Your telegram No.19.

Palestine in relation to the sterling area.

I agree that, in the circumstances, the only course to follow is to place Palestine outside the sterling area, for the present at any rate. But having regard to what I am informed is a desire widely held to remain within the area, it would perhaps be advisable when making announcement to indicate that, when constitutional changes have been established in Palestine, if an application to re-enter the sterling area was put forward, it would be considered. While the desire to remain in the sterling area is of course largely to retain unimpeded access to sterling balances, there might be advantages to the U.K. also, e.g. in relation to purchase of citrus fruits and products and maintenance of existing trade with Palestine.

2. The above view is expressed on the assumption that Trans-Jordan would be placed outside the sterling area simultaneously with Palestine, since I assume that it is unlikely that an alternative currency arrangement could be made at a very early date. In view of length of frontiers and present security position, it would not be possible to prevent movement of notes across the frontiers and effective control would therefore not be possible unless corresponding regulations are introduced in Trans-Jordan. I should, therefore, be grateful for early information regarding proposals for Trans-Jordan.

3./

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3. With regard to paragraph 2 of your telegram, I should draw attention to the following aspects of the exchange position. Under present circumstances it is policy not (repeat not) to issue import licences to Jewish importers involving payment to American account countries so long as gift dollars are available. United States dollar constitutes Palestine's biggest call on sterling area foreign currency resources and Arab section of the population has little or no dollar earning capacity. Although their demands (? can be) less than those of Jewish section, it is not to be expected that Jewish Agency or any other Jewish Authority would be willing to make dollars or other foreign currencies available to the Arab section. While this situation will have to be firmly faced after termination of the Mandate, I trust that, meanwhile, limited amount of foreign currencies could be made available on present basis for non-Jewish importers, while Jewish importers continue to obtain all their foreign currencies from Jewish Agency gift dollar resources.

4. On the assumption that it is not intended to abandon control of foreign currencies, and in the absence of a central bank here, considerable machinery would have to be set up to arrange accounting of foreign currencies and sterling. Moreover, if no initial balances of (?desired) currencies can be released as working capital, introduction of new scheme would mean day-to-day accounting by a staff of exchange dealers or brokers. However, I think that one authorised dealer (presumably Barclay's Bank) should be invited to operate a central account on behalf of the Controller of Foreign Exchange. While this difficulty is not therefore insurmountable, I must draw attention to the fact that present staff position, both Government and Bank, will make arrangements far from easy.

5. With regard to paragraph 10 of your telegram, I consider that there are clear advantages in selecting an early date and would therefore suggest 1st, 7th or 15th February, with a preference for the last mentioned date. In any case, I would prefer that it should not be earlier than the first mentioned date. The advantages of an early date are:-

(a) The chances of a leakage or of intelligent anticipation resulting in any flight from Palestine pound are reduced; there is also to be avoided necessity for hasty

imposition/

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INWARD TELEGRAM

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imposition and consequent closure of banks for a few days while new machinery is set up;

(b) Unless there is a remarkable change for the better in local security conditions generally, it will be increasingly difficult at this end not only to operate but even to introduce new system at all smoothly. It is in the best interests of Palestine itself that any degree of chaos should be avoided;

(c) The longer we have in which to establish new system the greater will be the chances of local economy becoming adjusted thereto before the Mandate terminates.

6. I am taking steps to furnish information asked for in paragraphs 10 and 11, and this will follow.

7. With reference to your paragraph 12, the measures previously prepared for a system of control over sterling area being examined and adjusted in readiness to meet changes now proposed.

8. I trust you will be able to give me at least ten days notice of date finally decided upon, and I consider almost essential that a Treasury or Bank of England representative should come to Palestine to give advice and to act in liaison capacity a short while before, and over, the transition stage. This was contemplated on earlier occasion when there was a possibility of introducing control of sterling - paragraph 16 of my telegram No. 1190 and paragraph 4 of your telegram No. 1683 of 1947 refer. This is even more desirable now in view of reduction of senior staff in Financial Branch through departure of Fletcher-Cooke for New York (especially since person named had very useful knowledge of the working of exchange controls) and having regard to desirability of taking decisions on points affecting United Kingdom exchange control (without having) reference to London.

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Sir S. Caine
Sir C. Jeffries
Mr. Holding
Mr. Martin
Mr. Trafford Smith
Mr. Gutch
Mr. Mathieson
Mr. Higham
Mr. Galsworthy
Mr. Holmer
Mr. Eastwood
Mr. Butters
Sir G. Clauson
Mr. Ross
Foreign Office - Mr. Keith.

Treasury - Mr. Rowe-Dutton.
Bank of England - Mr. Siepman.
Foreign Office - Mr. Trevelyan.

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INDEXED

E.539/7 OUTWARD TELEGRAM.

~~FROM THE SECRETARY~~ OF STATE FOR THE COLONIES.

23 JAN 1948

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26

P.N.
E

16479/35/47

288/7

Cypher (O.T.P.)

TO PALESTINE (General Sir A. Cunningham)

FROM S. OF S., COLONIES.

Sent 20th January, 1948. 18.15 hrs.

IMMEDIATE

No.229 Top Secret.

Addressed High Commissioner Palestine.
Repeated UKDEL New York BRIEF No.9 for Trafford Smith.

Your telegram No.40.

Palestine in relation to sterling area.

It is considered most desirable that Palestine should leave sterling area at earliest practicable date. In addition to reasons given in your paragraph 5 the matter may well be raised in the course of discussions now opening with U.N. Commission. Delay might lead to leakage of intention and effectiveness of operation might consequently be minimised. Conclusion has therefore been reached that exclusion should, if possible, take place from 8th February (repeat 8th February) which is earliest practicable date at this end.

2. Indications of a desire by Palestine interests to remain in sterling area have also been observed here. Some advantage might accrue to sterling area by re-admittance of successor state or states, but no certainty can be felt on this matter until future conditions in Palestine can be gauged more accurately. It is essential that any such re-admittance should take place on H.M.G.'s terms and only when we had full confidence that a policy acceptable to H.M.G. would be followed and that local exchange control mechanism was competent to ensure the full application of this policy. While therefore some immediate political advantage might result from incorporating in the announcement the suggestion in paragraph 1 of your telegram under reference it would seem undesirable to include anything which could subsequently be represented as an implied understanding to give favourable consideration to an application to re-enter the sterling area. Matter is however being considered further and terms of proposed announcement will be notified to you.

3. Difficulties of your staff position in present circumstances are fully appreciated. It is hoped to arrange for Curran of the Financial Advisor's Office M.E.C. to visit Palestine. Perhaps you could also secure the services of Sweeting? If so, it would be advantageous for him to make brief visit to this country for discussion.

4./

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4. Your paragraph 3. So long as the present Palestine Exchange Control is able to operate, H.M.G. would be prepared to consider modest allocations of foreign currencies against the payment of sterling should Palestine's earnings in foreign currencies prove insufficient for the country's essential requirements. Any allocations of foreign currencies that are agreed to be put at Palestine's disposal will however be sold on precisely the same basis as hitherto, that is, on the authority of the Palestine Exchange Control. How such allocations will be distributed as between Jew and Arab, will be - as at present - for the Palestine Government to decide. I understand this to mean, in practice, that any foreign currency we might supply would, in effect, be used to meet Arab needs, the Jews supplying their own dollar requirements from outside sources.

5. Your paragraph 4. I agree that control of foreign currency could be best operated as suggested.

6. Grateful to receive information promised in your paragraph 6.

7. Your paragraph 7 noted.

8. I will inform you as soon as possible of arrangements contemplated for Trans-Jordan.

(Copies sent to Foreign Office for onward transmission).

Distributed to:-

D.44
Secretary of State
Sir T. Lloyd
Mr. Rees-Williams
Sir S. Caine
Sir C. Jeffries
Mr. Holding
Mr. Martin
Mr. Trafford Smith
Mr. Gutch
Treasury
"
"
Foreign Office
" "
" "
Bank of England
" " "

Mr. Mathieson
Mr. Higham
Mr. Galsworthy
Mr. Holmer
Mr. Eastwood
Mr. Butters
Sir G. Clauson
Mr. Ross

= Mr. Rowe-Dutton.
= Mr. N. Young.
= Mr. H.E. Brooks.
= Sir E. Hall Patch.
= Mr. Trevelyan.
= Mr. Keith.
= Mr. H. Siepmann.
= Mr. Loombe.

22 JAN 1948

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Registry
No. E 539/7/31

Top Secret.
~~Secret~~
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~~Restricted~~
~~Open~~

H.T.

Draft.

Mr.E.Rowe-Dutton,
C.B., C.M.G.

From Sir E.
Hall-Patch.

Eastern Dept. first.

27

Foreign Office, S.W.1.

Clauson's letter of the 14th January about Palestine in relation to the sterling area.

2. I agree to Clauson's draft telegram to the High Commissioner. I think that it is important that we should now get the time-table clear. We should like to inform Cadogan as long as possible before February 1st, what we propose, sending him at the same time the draft statement for publication, in order to give him time to prepare to meet queries and criticism from the Commission, the Press and the Zionists. It is therefore most urgent that we should now finally agree on the draft instructions and statement, which, together with the O.N.C.paper on the other points, will be sent to the Chancellor and presumably submitted by him to the Cabinet or E.P.C. I suggest therefore that, if it is convenient to you, we should have a meeting with Clauson in your room, to consider your final draft. If you can manage it, I am very anxious that we should hold it this week.

3. I have some doubts myself whether we can get this all tied up satisfactorily by February 1st, but from our point of view it seems very important that we should reach a decision quickly. Otherwise Cadogan will be inadequately briefed to deal with a very tricky subject with some very tricky people.

~~4. I am copying this to Clauson.~~

~~[Sd. E. H-P.]~~.

4. I understand that it will not be possible to ~~not~~ have Transjordan in the sterling area for some time, as the technical arrangements for providing the new currency cannot be made before the date when Palestine

(33654) W.14696/147 75,000 6/47 A.& E.W.Ltd Gp.685

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leaves the area. We agree to Transjordan leaving the area provided that we can now assure the Prime Minister who is ~~in~~ probably arriving in London on the 19th January in London, that ~~he~~ the exclusion will be temporary, that Transjordan will be readmitted to the sterling area as soon as new currency arrangement can be made for her and that meanwhile exclusion will make no practical difference to her. I understand that the Treasury are prepared to accept these conditions. In order to explain the position to ~~Nessim~~ TEWFIQ Pasha, we should be grateful if the Treasury would let us have a short note of the arrangements proposed for Transjordan.

5. I am copying this to Clauson.

WRITTEN IN THIS MARGIN.

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E 539/7/31

FOREIGN OFFICE, S.W.1.

15th January, 1948.

Clauson's letter of the 14th January about Palestine in relation to the sterling area.

I agree to Clauson's draft telegram to the High Commissioner. I think that it is important that we should now get the time-table clear. We should like to inform Cadogan as long as possible before February 1st, what we propose, sending him at the same time the draft statement for publication in order to give him time to prepare to meet queries and criticism from the Commission, the press and the Zionists. It is therefore most urgent that we should now finally agree on the draft instructions and statement, which, together with the Overseas Negotiations Committee paper on the other points, will be sent to the Chancellor and presumably submitted by him to the Cabinet or the Economic Policy Committee. I suggest therefore that, if it is convenient to you, we should have a meeting with Clauson in your room to consider your final draft. If you can manage it, I am very anxious that we should hold it this week.

I have some doubts myself whether we can get this all tied up satisfactorily by February 1st, but from our point of view it seems very important that we should reach a decision quickly. Otherwise, Cadogan will be inadequately briefed to deal with a very tricky subject with some very tricky people.

I understand that it will not be possible to have Transjordan in the sterling area for some time, as the technical arrangements for providing the new currency cannot be made before the date when Palestine

leaves/

Rowe-Dutton, Esq., C.B., C.M.G.

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leaves the area. We would be prepared to agree to Transjordan leaving the area provided that we can assure the Prime Minister, who is probably arriving in London on the 19th January, that the exclusion will be temporary, that Transjordan will be readmitted to the sterling area as soon as new currency arrangements can be made for her and that meanwhile exclusion will make no practical difference to her. I understand that the Treasury see no objection. In order to explain the position to Tewfiq Pasha we should be grateful if the Treasury would let us have a short note of the arrangements proposed for Transjordan.

I am copying this to Clauson.

E. L. Hall-Patch.

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1943

Palestine
EASTERN

E692 /G 29

15 NOV 1938

4

E 692 / 7 / 31/G

Colonial Office

Custodian's assets in Palestine

Dated 10 Jan

To be Palestine 101

Last Paper.

E533

References.

E38/38/31

(Print.)

(How disposed of.)

(Minutes.)

I rather think this has already been entered and marked to E.R. Dept.

Nevertheless

E.R. Dept. to see

JB Jan 17

(Action completed.)	(Index.)
JF 19/1	

Next Paper.

30471 F.O.P.

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16 JAN 1948 E

OUTWARD TELEGRAM

1. H.T. 30
2 Eastern Gibbon
Green.

FROM THE SECRETARY OF STATE FOR THE COLONIES

E692

18281/47

Cypher (O.T.P.)

TO PALESTINE (Gen. Sir A. Cunningham)

Sent 10th January, 1948. 14.45 hrs.

Secret
No. 102

Addressed to High Commissioner, Palestine.
Repeated to Embassy, Washington, BRIEF No. 2.
" to U.K. Delegation, New York, BRIEF No. 2.

Your telegram No. 1311 Saving.

Custodian's Assets in Palestine.

Final rules for accounting will be forwarded when available.

2. Assets which devolved after 24 (repeat 24) January, 1945 on German nationals residing in Germany do not have to be accounted for. Assets which so devolved before that date do have to be accounted for.

3. Policy of His Majesty's Government is to release Category B assets in Palestine to the persons entitled unless there are special reasons for retention. List in your paragraph 4 is however incorrect and should read as follows:-

(i) Assets of any German nationals resident outside Germany except those who were resident in Germany on 24th January, 1946.

(ii) Assets of German nationals formerly resident in Germany who have left Germany and (repeat and)

(a) who were deprived of liberty pursuant to any German law, decree or regulation discriminating against religious or racial groups or other organizations.

(b) who did not enjoy full rights of German citizenship at any time between 1st September, 1939 and the abrogation of such law, decree or regulation and (repeat and)

(c) who did not act against the Allied cause.

(iii) Assets of any non-German nationals who have left Germany and whose assets have been seized because the owner was resident in Germany e.g. Palestine Arabs who went to Germany before the war.

(iv) Household goods and limited personal effects of repatriates to Germany, and of German diplomatic and consular officers.

/(?)

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(v) Assets of religious bodies or private charitable institutions and used exclusively for religious or charitable purposes.

Please consider desirability of issuing press announcement to this effect.

4. It is in general desirable to refrain from specifying Palestinian corporate property as enemy if it can be avoided. In my immediately succeeding telegram I have suggested that vesting should only be resorted to if amicable arrangement is impossible.

5. Your paragraph 7. Depreciation of value of assets was intended to refer to revaluation of assets on a realistic basis of their market value under present and expected conditions of sale.

6. Your paragraph 10. Free disposal of assets of persons whom it is not proposed forcibly to repatriate to Germany should in general be prepared for. It is not proposed to repatriate to Germany either Australian ex-internees or other internees. If Australia cannot accept the latter efforts will be made to arrange for their admission to this country.

7. Your paragraph 11. I agree that steps should be taken preparatory to release of assets described in paragraph 3 above.

8. Your paragraph 12. I have suggested the use of outside agencies to assist sales in my immediately succeeding telegram.

9. Your paragraph 13. There is no objection to sale by private treaty if price is defensible.

10. Your paragraph 14. This will be discussed by expert mentioned in paragraph 13 below on arrival.

11. Your paragraph 15. Steps should be taken to draft legislation on the lines of S.R. & O. No. 501 of 1945 in readiness for enaction. Pending further indication however that there are no objections to enactment I suggest that enactment be postponed.

12. Your paragraph 17. Please see paragraph 6 above.

13. Your paragraph 20. Jack Edward Abbott, Treasury official responsible for German external assets will leave U.K. for Palestine on Monday, 19th January, arriving Lydda 20th January 13.40 hours. Please make arrangements for meeting and accommodation. He will be required back in London by 29th January and may have to return sooner if events at Lake Success call for his attendance there on this question.

(Copies sent to Foreign Office for transmission to New York and Washington).

Copies sent to:-

Trading with the Enemy Dept.	-	Mr. D. Carter.
Treasury	-	Mr. J.E. Abbott.
"	-	Mr. Russell Edmunds.
"	-	Mr. H.R. Apperley.
Foreign Office	-	Mr. B.A.B. Burrows.
" "	-	Mr. Trevelyan.
	-	Mr. Beith.

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9

1948

E

PALESTINE

E 810 31

21 JAN 1948

Registry Number E 816/7/31.

FROM

No. 70. Minute

Dated Mr Evershed

Received in Registry 16 Jan

21 ~

Palestine Economic Brief

x copy letter to Sir O Gladogan giving
views on how the matter of the economic
Brief on Palestine is progressing.

Last Paper.

610

References.

(Print.)

(How disposed of.)

Copy Sir O. Gladogan
U.K. Del
New York.
Jan 19
from Sir P. Hall-Patch

(Minutes.)

M.S. Bevin
Jan 21

H.B. 22/1

(Action completed.)	(Index.)
E Hall 23/1	24/1/48

Next Paper.

938

26513 F.O.P.

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Nothing to be Written in this Margin.

Minutes.

32
E

Sir E. Hall-Patch asked me to draft a letter from him to Sir Alexander Cadogan giving some idea of how the matter of the economic brief on Palastine was progressing. Draft is below.

H. Trevelyan.

16th January, 1948.

Eastern Department.

A.N. Dept. Attd. 17/1

E 616
21 JAN 1948

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H.T. 16/1

Draft.

Sir A. Cadogan, New York.

From:-

Sir E. Hall-Patch.

Copy to:-

Lord Inverchapel, Washington. (with Cadeau Eccles & Memory).

Mr E. Rowe-Dutton Treasury.

Sir Sidney Caine, Colonial Office.

Eastern Dept. first AN

NOTHING TO BE WRITTEN IN THIS MARGIN.

(33054) Wt.14696/147 75,000 6/47 A.& E.W.Ltd. Gp.685

OUT FILE

January, 1948.

I realise that in your discussions with the United Nations Palestine Commission you are likely to have a good many questions asked at a fairly early stage upon various technical questions such as ~~the~~ questions about finance and food procurement. I think therefore that you ~~will~~ would like to have from me some idea of how ~~th~~ings are shaping this end in consideration of these subjects, though I am afraid that I shall not be able to give you anything very detailed at present. You will probably have had an outline from Trafford Smith.

We shall be sending you, of course, a complete brief on all these questions. It is held up at present for the final Treasury views on the financial questions which are of some complexity. We are trying to bring matters to a head as early as possible; but the proposals will have to go ~~before~~ to Ministers before they are put into final form. The most important financial proposal is that the Palestine sterling balances should be blocked and that Palestine should be removed from the sterling area. We have no doubt that this is essential in the financial interests both of Palestine and of the sterling area as a whole. We realise that the decision is likely to arouse considerable adverse criticism and that our friends of the Jewish lobby will take every advantage of it that they can. We are therefore going to some trouble to prepare a statement which/

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which will be issued at the time the balances are blocked, in order to minimize as far as possible the adverse reactions which we expect. You will realise that a step of this nature must be kept absolutely secret until action is taken, and that therefore it is necessary for the action to be taken before you open financial discussions with the Commission. Unfortunately the technical arrangements take some time to prepare, and though we hope that it may be possible to complete these in time to take action on February 1st, I have some doubts whether this will be possible. We shall, of course, keep you fully advised of developments and hope to be able to send you and Inverchapel a copy of the proposed statement in case you have any amendments to suggest. I hope that it will be possible for you to keep the Commission in play for sometime without touching on financial questions.

Another question which has to be handled very carefully is the question of German assets in Palestine. We are accountable for all the assets under our control to I.A.R.A. and our share of reparations will be calculated after taking into consideration as ~~German~~ assets already accruing to us, all those German assets which have been liquidated during the period of mandate. We shall therefore have to transfer to the U.K. all such liquid funds; but are now examining whether we shall incur any serious financial loss through a policy of slowing down liquidation as far as possible. The charge against us ~~would~~ will, of course,

be/

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be that we are removing from Palestine German assets which should go to the Jews. There are various answers to such an accusation, which will be dealt with in the brief and we are trying to reach a decision which will be justifiable in our own economic interests and at the same time will do as little political damage as possible. There is not so much urgency over this question and we shall probably have to ask you to negotiate on it with the Commission. Our most likely line will be to ask you to try and get the Commission to agree to be responsible through us to I.A.R.A. for the German assets in Palestine which have not yet been liquidated.

I shall not go further into details now, as this will give you a sufficient idea of the kind of subject with which the economic brief will deal and how things are developing here. You will, of course, want technical advice and the departments concerned ~~have agreed~~ to place their representatives in Washington at your disposal for this purpose, ~~provided there is no difficulty~~.

I am sending a copy of this letter to Inverchapel.

17/1/46

NOTHING TO BE WRITTEN IN THIS MARGIN.

3148 Wt. 26469/137 50m 9/46 (51) F.&S.

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35

FOREIGN OFFICE, S.W.1.

19th January, 1948.

I realise that in your discussions with the United Nations Palestine Commission you are likely to have a good many questions asked at a fairly early stage upon various technical questions such as questions about finance and food procurement. I think therefore that you would like to have from me some idea of how things are shaping this end in the consideration of these subjects, though I am afraid that I shall not be able to give you anything very detailed at present. You will probably have had an outline from Trafford Smith.

We shall be sending you, of course, a complete brief on all these questions. It is held up at present for the final Treasury views on the financial questions, which are of some complexity. We are trying to bring matters to a head as early as possible; but the proposals will have to go to Ministers before they are put into final form. The most important financial proposal is that the Palestine sterling balances should be blocked and that Palestine should be removed from the sterling area. We have no doubt that this is essential in the financial interests both of Palestine and of the sterling area as a whole. We realise that the decision is likely to arouse considerable adverse criticism and that our friends of the Jewish lobby will take every advantage of it that they can. We are therefore going to some trouble to prepare a statement which will be issued at the time the balances are blocked, in order to minimise as far as possible the adverse reactions which we expect. You will realise that a step of this nature must be kept absolutely secret until action is taken, and that therefore it is necessary for the action to be taken before you open financial discussions

/with

The Right Hon.Sir Alexander Cadogan,
P.C., G.C.M.G., K.C.B.,
U.K.Delegation to the United Nations,
New York.

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Another question which has to be handled very carefully is the question of German assets in Palestine. We are accountable for all the assets under our control to I.A.R.A. and our share of reparations will be calculated after taking into consideration as assets already accruing to us, all those German assets which have been liquidated during the period of mandate. We shall therefore have to transfer to the U.K. all such liquid funds; but are now examining whether we shall incur any serious financial loss through a policy of slowing down liquidation as far as possible. The charge against us will, of course, be that we are removing from Palestine German assets which should go to the Jews. There are various answers to such an accusation, which will be dealt with in the brief and we are trying to reach a decision which will be justifiable in our own economic interests and at the same time will do as little political damage as possible. There is not so much urgency over this question and we shall probably have to ask you to negotiate on it with the Commission. Our most likely line will be to ask you to try and get the Commission to agree to be responsible through us to I.A.R.A. for the German assets in Palestine which have not yet been liquidated.

I shall not go further into details now, as this will give you a sufficient idea of the kind of subject with which the economic brief will deal and how things are

/developing

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developing here. You will, of course, want technical advice and I am hoping to arrange that the departments concerned will place their representatives in Washington at your disposal for this purpose, if that course is agreeable to you.

I am sending a copy of this letter to Inverchapel.

Signed: E.HALL-PATCH.

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10

E

1948

PALESTINE

E 938 37

22 JAN 1948

Registry Number E938/4/31.

FROM 70 Minute

No. 44 Bureaux.

Dated

Received in Registry 23 Dec 22 Jan

Appointment of Experts re Palestine

Refers correspondence ended with H/C re appointment of experts to assist Sir A. Cadogan in negotiations with U.N. Palestine Commission on questions of finance, procurement and oil.

Last Paper.

816

References.

(Print.)

(How disposed of.)

(Minutes.)

Stan 23

(Action completed.) 27/1

(Index.)

Next Paper.

939

26513 F.O.P.

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10

E

37

E 938

22 JAN 1948

1948

PALESTINE

Registry Number	E938/4/31
FROM	70 Minute
No.	M'Burrows.
Dated	
Received in Registry	23 Dec 22 Jan

Appointment of Experts re Palestine

Refer correspondence with H/C re appointment of experts to assist Sir A. Cadogan in negotiations with U.N. Palestine Commission on questions of Finance, Procurement and Oil.

Last Paper.

816

References.

(Print.)

(How disposed of.)

(Minutes.)

10 Jan 23

(Action completed.)

Feb 27/1

(Index.)

Next Paper.

939

26513 F.O.P.

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INWARD TELEGRAM 40 38

Cypher (O.T.P.)

FROM PALESTINE (General Sir A. Cunningham)

TO S. OF S., COLONIES.

D. 22nd December, 1947.
R. 22nd " " 15.20 hrs.

IMMEDIATE.

No.2487 Top Secret and Personal.

Addressed S. of S.
Repeated U.K. Delegation New York No.1867.
(Washington please pass).

Your telegram No.3358.

I am nominating Fletcher Cooke as our representative to negotiate with U.N.O. Commission. He has a good general knowledge of the situation as well as his financial experience. He is at the present on a few days leave in Malta, but I propose to fly him back here after Christmas for briefing and would try to make him available in London for at least one day on his way to New York.

2. I am afraid that I must still request Gibson's return here in the middle of January, as I will require his services urgently. To replace him I could supply junior officer out of the Political Branch with a knowledge of the facts, but have no senior officer who could be spared. In view of instructions received by our representatives, it seems very doubtful whether it is worth while sending anyone to assist on the Working Committee of the Trusteeship Council.

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Distributed to:-

R.243
Secretary of State
Sir T. Lloyd
Mr. Rees-Williams
Sir S. Caine
Sir C. Jeffries
Mr. Holding
Mr. Martin
Mr. Trafford Smith
Mr. Gutch
Mr. Mathieson
Mr. Higham
Mr. Galsworthy
Mr. Holmer
Mr. Dale
Cabinet Offices
" "
Ministry of Defence
Treasury
"
Admiralty
"
"
War Office
" "
" "
Ministry of Transport (M.O.4.)
" " "
Air Ministry
" "
Foreign Office
" "
" "
" "
M.I.5.

Mr. S.L.V. Luke.
Brig. Cornwall-Jones.
Commander Eyershed.
Mr. A.J. Newling.
Mr. D.R.C. Bluht.
Mr. W. Russell-Edmunds.
Mr. P.N.N. Synnott.
Capt. Maunsell.
Capt. D.H. Hall-Thompson.
Mr. G.C.B. Dodds.
Brig. J.R.C. Hamilton.
Brig. L.L. Wansbrough-Jones.
Lt. Col. Charteris.
Mr. B.F. Pickmett.
Mr. F.C. Rennie.
Air Commodore Brook.
Group Capt. V.H.B. Roth.
Mr. B.A.B. Burrows.
Mr. H. Beeley.
Mr. J.G.S. Beith.
Mr. J.C. Robertson.

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Nothing to be Written in this Margin.

Minutes.

E 938

22 JAN 1948

EMEA 39 E

Please see below correspondence with the High Commissioner for Palestine about the appointment of experts to take part in the negotiations between the United Kingdom Delegation, New York, and the United Nations Commission for Palestine. We have also had brief discussion here of the need for attaching financial and other experts to Sir A. Cadogan's staff for this purpose and I suggest that this should now be taken up either direct with the Treasury or in the Overseas Negotiations Committee. It would seem at first sight that representatives of the Treasury and possibly of the Bank of England would have to go to New York unless the Treasury Delegation at Washington can handle the question and that there might also be need for an oil expert. Questions of procurement machinery will also have to be discussed in some detail and this will have to be covered either from here or Washington.

ERD/pT

B H B Burrows

23rd December, 1947.

This was discussed with Mr Rowe-Dutton after the note was written. After clearing at ONC we shall have to write to Washington. I take it ER Dept will take the necessary action?

BHB 23.12

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Minutes.

The intention is that Treasury, Ministry of Food and Ministry of Fuel and Power should send representatives from their Missions at Washington to assist Sir A. Cadogan on questions of finance, procurement and oil.

The general Brief for Sir A. Cadogan should, I suggest, be prepared by O.N.C., subsidiary briefs for departmental representatives being prepared by the departments concerned, within the framework of the general brief.

This will, of course, cover only the financial commercial and general economic questions. Primarily political questions will be dealt with by Eastern Department of Foreign Office. We might discuss procedure informally first with Chairman O.N.C.

H. Trevelyan,

27th December, 1947.

Mr. Makins.

Mr Rowan thinks the O.N.C. paper now circulated will be an adequate brief for Sir A. Cadogan. If further briefs are needed a simple subject he agrees that they should be prepared under the aegis of O.N.C.

The Treasury have been instructed to deal with certain points e.g. currency working on that draft.

2/1.

RECEIVED IN O.B.
22 JAN 1948
SENT TO DEPT.

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Minutes.

40

The position now is as follows:

1. The O.M.C. paper on Palestine is being reprinted with the incorporation of the revised version on German assets in Palestine, to which we have agreed after a meeting with Sir Desmond Morton. This is being sent to Mr. Makins separately.

2. We are still awaiting the final Treasury proposals regarding the blocking of the sterling balances and the exclusion of Palestine from the Sterling Area, and the draft statement to be issued to the public explaining this action. The Colonial Office is writing to Mr. Rowe-Dutton on several points arising from the High Commissioner's recent telegram/~~statement~~ and ~~our~~ recommending the selection of the first date* for the blocking of the balances. The Foreign Office (Eastern Department) are writing to the Treasury with reference to the same telegram, emphasising again the necessity for the retention of Transjordan in the Sterling Area. I am taking this up also with Mr. Norman Young and discussing with him the technical arrangements which will be necessary and how they can be made in time. It may be possible to use Mr. Abbot to advise the Transjordan Government during his forthcoming visit to Palestine. On receipt of the proposals regarding the sterling balances from the Treasury, our intention has been that we should obtain the Secretary of State's instructions, as we have reserved our position for that purpose.

(* Feb 7th).

Since writing this, I have learnt that it will almost certainly be necessary that Transjordan should go out for a time. This is being taken up separately.

3. The O.M.C. paper and the separate proposals about the blocking of the sterling balances, etc. will then be circulated together to the Cabinet or E.P.C.

4. On receipt of their approval, the briefs will be forwarded to Sir Alexander Cadogan by Eastern Department. O.M.C. are, I gather, anxious to get rid of Palestine and not to be the primary authority dealing with the financial and trade aspects of the discussions with the United Nations Commission. As has been agreed, Departments concerned will enable Sir Alexander Cadogan to have the benefit of the advice of their representatives in Washington. Telegrams reporting the developments in the negotiations and asking for any further instructions will be sent by Sir A. Cadogan in the Foreign Office series, World Organisation Distribution, and replies will be sent by the Departments concerned through the Foreign Office. If it appears later that/~~such~~ interdepartmental machinery, either O.M.C. or outside it, is required to deal with the economic aspects of these negotiations, that can be arranged later. This minute is written after discussion with Mr. Beith.

Special/

H. Trevelyan.

H. Trevelyan.

13th January, 1948.

Eastern Dept. JWBB

Mr. Makins. 16.1

RWy 18/1

Sir E Bell Paith mtg. 16/1/48

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OUTWARD TELEGRAM

4p 41

75872/159/47

Cypher (O.T.P.)

TO PALESTINE (General Sir A. Cunningham)

FROM S. OF S., COLONIES.

Sent 20th December, 1947. 15.30 hrs.

IMMEDIATE

No. 3358 Top Secret and Personal.

Addressed High Commissioner, Palestine.
Repeated UKDEL.

Your telegram No.2352 repeated UKDEL No.1690. Agenda for Sir A. Cadogan's negotiations with United Nations Commission.

You will have seen Secretary General's announcement of meeting of Commission summoned for 7th January, but we cannot of course be certain yet if representatives will be nominated in time for a meeting on that date.

2. When Commission meet first question we should wish to have discussed with them would be their general plans and timetable. It is impossible to forecast how long this preliminary discussion will take but it is clearly desirable that all concerned should be prepared to go on to deal with security, administrative and financial problems at an early stage. Meanwhile I should be grateful if you would consider what adviser or advisers should attend negotiations on behalf of the Palestine Government and inform me as soon as possible whom you propose. It seems unlikely that your representative on Working Committee of Trusteeship Council would be sufficiently free to take a full part

in/

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in negotiations with United Nations Commission. Colonial Office representative will be Trafford Smith. Question of Treasury representation is being taken up but in any event it would probably be desirable for either Stewart or Fletcher-Cooke to attend.

(Copies sent to Foreign Office for transmission to UKDEL).

Distributed to:-

R.243
Secretary of State
Sir T. Lloyd
Mr. Rees-Williams
Sir S. Caine
Sir C. Jeffries
Mr. Holding
Mr. Martin
Cabinet Offices " " " "
Ministry of Defence
Treasury "
Admiralty " " "
War Office " " " " (M.O.4.)
Ministry of Transport " "
Air Ministry " "
Foreign Office " " "
M.I.5.

Mr. Trafford Smith
Mr. Gutch
Mr. Mathieson
Mr. Higham
Mr. Galsworthy
Mr. Holmer
Mr. Dale

Mr. S.E.V. Luke.
Brigadier Cornwall-Jones.
Commander Evershed.
Mr. A.J. Newling.
Mr. D.F.C. Blunt.
Mr. W. Russell-Edmunds.
Mr. P.W.W. Synnott.
Capt. Mainwell.
Capt. D.H. Hall-Thompson.
Mr. G.C.B. Dodds.
Brig. J.R.C. Hamilton.
Brig. L.L. Wansbrough-Jones.
Lt. Col. Charteris.
Mr. E.F. Pickett.
Mr. F.C. Rennie.
Air Commodore Brook.
Group Capt. V.H.B. Roth.
Mr. B.A.E. Burrows.
Mr. H. Bealey.
Mr. J.G.S. Beith.
Mr. J.C. Robertson.

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1948

E

PALESTINE

E 983

42

23 JAN 1948

Registry Number E983/7/31

TELEGRAM FROM

No. U.K. Del New York.

Dated

Received in Registry } 16 7. 22 Jan

Finance, Cost of Cyprus Camps.

For Attorney from Hutchison Cooke,

Refer Jerusalem Tel 131 to U.K. Del, Financial Secretary discusses question of Expenditure re Illegal Immigration and Maintenance of Cyprus Camps. Requests opinion re payments for above, and for information on same.

ADDRESSED JERUSALEM 244.

Last Paper.

974

References.

(Print.)

(How disposed of.)

8, Watherston. CO
Eventual Sub Off
M.J. 3a
MO4
Admty
O.M.
Jan 23

(Minutes.)

As regards the Cyprus Camps, we shall clearly have to secure payment from Palestine funds until the end of the Mandate, which shd be fairly simple. After that it is just possible that we shall still be collecting Customs at Haifa, in which case this money might be charged with further costs between May 15 & the clearance of the Camps.

This is however a Co. problem in the main.

J.E.S. Reeves
Jan 23
H.B. 23/1

(Action completed.) Feb 24/1

(Index.) 28/1/48

Next Paper.

991

30471 F.O.P

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[This telegram is of particular secrecy and should be retained by the authorised recipient and not passed on]

Cypher/OTP

DEPARTMENTAL
23 JAN 1948

FROM NEW YORK TO FOREIGN OFFICE

(From United Kingdom Delegation to United Nations)

No. 167

D. 6.13 pm. 22nd January, 1948.
R. 12.30 am. 23rd January, 1948.

22nd January, 1948.

Repeated to Washington saving.

IMMEDIATE

SECRET

Addressed High Commissioner Jerusalem telegram No.24 of 22nd January, repeated to Foreign Office and saving to Washington.

Following for Stewart from Fletcher - Cooke.

Reference your telegram to United Kingdom Delegation 131. Financial forecast.

1. Cost of Cyprus camps.

Whatever may be the outcome of Jewish Agency's proposal referred to in paragraph 1 of my telegram No. 18 to press for the recovery from His Majesty's Government of the full cost of combatting illegal immigration, it seems clear to me that there will be difficulties in re-imbursing His Majesty's Government from Palestine funds for this expenditure unless (repeat unless) such payments are effected before control of assets passes to the Commission. Any proposal, therefore, to defer these payments until after the termination of the mandate will probably mean that His Majesty's Government will never be paid at all. Unless His Majesty's Government are prepared to accept this liability it would seem desirable to pay all such accounts from Palestine funds as soon as they are presented. I should be grateful for information as to:-

(a) The total amount actually paid to His Majesty's Government on this account and the date up to which payments have now been made.

(b) An estimate of the amount likely to be due for the period between the date referred to in (a) above and the termination of the mandate.



/(c)

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(c) Whether it is proposed (in view of the foregoing) to make these payments before the termination of the mandate.

I am very doubtful whether the Commission under pressure from the Jewish Agency will agree to re-imburse from Palestine funds any expenditure incurred by His Majesty's Government for the maintenance of immigrants in Cyprus after the termination of the mandate or for any expenses incurred in transporting them to Palestine after that date but as this is obviously a commitment which can not (repeat not) be met before termination of the mandate it would seem that His Majesty's Government may well have to accept this liability.

2. Special expenditure between 1st January, and 31st March and between 1st April and 15th May.

According to paragraph 1 of your telegram referred to above special expenditure for these two periods amounts to 5,385,000 and 3,540,000 pounds respectively. Of this total nearly 9,000,000 pounds cost of Cyprus camps not yet paid appears to account for approximately 1,500,000 pounds and abolition benefits to nearly 2,000,000. Grateful for information as to how the balance of some 5,500,000 pounds is arrived at.

3. Abolition payments.

I observe that special expenditure prior to May 15th includes proposed payment of nearly 2,000,000 pounds for abolition benefits. I feel certain that Commission will wish to be consulted before any such payments are made and that as suggested in paragraph 4 of my telegram 18 Commission will wish to have an opportunity of considering proposed terms before any announcement is made.

4. 1948/49 estimates.

In reply to a question at yesterday's meeting with the Commission I explained that provision has already been made in the 1947/48 estimates for expenditure up to the 31st March 1948 and that the intention is to prepare supplementary estimates to cover the period 1st April to 15th May. Commission appeared to be of the opinion that it was a responsibility of the present Government to make provision for expenditure for the full financial year 1948/49 and the Chairman said that they would have to take this matter up at an early date.

Generally

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Generally speaking Commission are still labouring under the delusion that they will take over a working machine and I feel that they intend to reserve to themselves the right to decide whether a Palestinian Officers Services can be regarded as terminated or not and if they are to decide upon appropriate compensation terms.

Please pass Immediate to Colonial Office for Martin and Immediate to Jerusalem.

[Passed to Colonial Office for Martin and for transmission to Jerusalem].

ØØØØ

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1948

E

PALESTINE

E 991 67

23 JAN 1948

Registry Number E991/4/31

FROM 10 Minute

No. 41 Restr

Dated

Received in Registry Jan 19. 23

Financial and Economic Questions arising from withdrawal from Palestine

Measures question of Blocking Palestine Assets Sterling, which in turn raises question of Transjordan Arrangement, at present to exclude Transjordan also for a short time.

Last Paper.

983

References.

(Print.)

(How disposed of.)

(Minutes.)

H. Jan 24

(Action completed.) F.C. 26/1

(Index.) 18/1/49

Next Paper.

1001

26513 F.O.P.

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NOTHING TO BE WRITTEN IN THIS MARGIN.

Minutes.

48

Financial and Economic Questions Arising out of our Withdrawal from Palestine

E

F 091

23 JAN 1948

The Overseas Negotiations Committee have prepared a comprehensive paper (E 533/7/G) on this subject which is to be submitted to Ministers shortly. We await the final draft of the paper but in the meanwhile ONC (48) 15 is the paper substantially as it will be submitted and the Economic Relations and the Eastern Departments have been present at its drafting.

2. Apart from this paper, there is one important question which will be submitted to Ministers at the same time, namely the proposed exclusion of Palestine from the sterling area and the blocking of her sterling balances. Sir E. Hall Patch minuted on this question to the Secretary of State on December 18th (E 12111/11609/31). In accordance with the warning contained in this minute, the Treasury and Foreign Office have been working out a form of statement particularly designed to meet possible criticism in the United States explaining why it is necessary for us to block Palestine sterling balances. This statement is to be part of the Treasury submission to Ministers on this subject but is not yet ready.

3. There is one section of the ONC paper which has been the subject of special consideration by the Treasury and Foreign Office, i.e. Paragraphs 31 to 38 regarding the disposal of German external assets in Palestine. Briefly the position is as follows. Palestine being reckoned as British Territory for the purposes of the Paris Act, His Majesty's Government is responsible for seeing that all German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control. The United Kingdom share of reparations as allocated under the Paris Act is charged with the value of the German assets in Palestine. In the normal way, therefore, we should wish to go ahead as fast as possible with the liquidation of German assets in Palestine and their transfer to London. The Foreign Office have felt bound, however, to point out to the Treasury that this course might expose us to dangerous Jewish criticism that we are robbing the Palestinians of German assets which properly belonged to them - this being a matter which lies very close to the hearts of Jewish refugees from Germany in Palestine Such criticism would reinforce the criticism we expect on the blocking of sterling balances (see above). Sir Desmond Morton, our Representative on the I.A.R.A. held that we might evade

The Try. cannot yet say when it will be submitted with the ONC paper

responsibility/

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responsibility for accounting to I.A.R.A. for any assets which we had not actually liquidated. It has, however, finally been decided it would be too risky to make this assumption and that we must ~~[illegible]~~ be ready to proceed with the liquidation of assets. (See Mr. Trevelyan's minute of January 13th). A final decision need not be taken until Mr. Abbott of the Treasury has investigated the position in Palestine, which he is flying out to do.

4. Finally, the most important ~~[illegible]~~ political question from Eastern Department's point of view is Transjordan. The Treasury, backed up by the High Commissioner, believes that it is not feasible to keep Transjordan in the sterling area for the first month or two after Palestine is excluded, because alternative arrangements will have to be made to provide Transjordan with currency and there might be a serious leakage of sterling before some sort of exchange control can be set up in Transjordan. It is accordingly proposed to exclude Transjordan for a short time but inform the Government beforehand that they will receive exactly the same treatment while outside the sterling area as when they were inside it, and that as soon as their new currency arrangements can be made they can return to the sterling area. We shall have to warn the Transjordan Government soon of this decision since it is now proposed, subject to the decision of Ministers, to carry into effect the exclusion of Palestine from the sterling area on February 1st. ~~[illegible]~~

~~[illegible]~~

J.G.S. Beith,
Eastern Department
Jan 19

NB A meeting is to be held with the Try. today
E.R. Dept.

JB Jan 21

RECEIVED IN O.B.
22 JAN 1948
SENT TO DEPT.

NOTHING TO BE WRITTEN IN THIS MARGIN.

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Nothing to be Written in this Margin.

Minutes. 49

Relation of Trans-Jordan to the Sterling Area.

The Treasury now say that it is impossible to make arrangements in time for Trans-Jordan to remain in the sterling area while Palestine goes out. They agree that it will be possible to arrange that they should receive exactly the same treatment while outside the sterling area as when they were inside it (c.f. Sudan), and that they can be given an assurance that, as soon as their new currency arrangements can be made, they can return to the sterling area. They say that, if Trans-Jordan were to remain in the area, having the same currency as Palestine, while Palestine goes out, the possibilities of leakage would be too great.

2. I think that we shall have to accept this Treasury view. I still think it will be desirable that Abbott should have discussions with the Trans-Jordan Government while he is out there. Eastern Dept. will know whether we can rely on the Trans-Jordan Government keeping the proposals secret if they are told in advance, as they should be.

H.Trevelyan.

H.Trevelyan.

13th January, 1948.

Mr.Beith
Eastern Dept.

P-(draft a Tel. to Amman setting out the whole position.

13.1

Draft attached

13 Jan 15

L.of.L. Amman 16/1

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Nothing to be Written in this Margin.

Minutes. 49

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H Trevelyan

H.Trevelyan.

13th January, 1948.

Mr.Beith
Eastern Dept.

P-(draft a Tel. to Amman setting out the whole position.

13.1

Draft attached

13 Jan 15

L.F.L. Pyman
15/1

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16

1948

E

PALESTINE

E 1001 | 50

23 JAN 1948

Registry Number E1001/7/31.

FROM

No. Lascelles

Dated & M'Neil.

Received in Registry 17 Jan 23 –

Financial Questions re withdrawal from Palestine. Transjordan and the Sterling Area.

Transmit suggested redraft of para 3 of proposed GA to Amman (E991/7/31)

Concerns question of time of announcement of action re Transjordan Govt.

Last Paper.

991

References.

(Print.)

(How disposed of.)

(Minutes.)

18 Jan 24

(Action completed.) 26/1

(Index.) 18/1/49

Next Paper.

1042

26513 F.O.P.

PUBLIC RECORD OFFICE

Reference:- FO 371/68604

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Tel. No. Whitehall 1234

Your Reference .....

Treasury Reference .....

TREASURY CHAMBERS,
GREAT GEORGE STREET,
LONDON, S.W.1

17th January, 1948.

E 1061

23 JAN 1948

Dear Beith,

We suggest the following redraft of para. 3 of the draft telegram to Amman, which you left with me on Friday morning :-

> 3. Since Transjordan uses Palestine currency, it is felt here that we have no choice but to exclude Transjordan also from the sterling area.
>
> We can, however, assure the Transjordan Government that this is the only reason why we propose this step. As with the Sudan, when Egypt left the sterling area, the dangers of leakage if one of two adjacent territories using the same currency is within, and the other outside, the area, are too great to be faced. We contemplate however that as soon as Transjordan has made other currency arrangements, as she will no doubt wish to do, whether by adopting that of Iraq or otherwise, and can show that her exchange control arrangements are adequate to protect her and us, she would be free to rejoin the Sterling Area, if she wished to do so. In the meantime we propose to treat Transjordan so far as concerns her own requirements in exactly the same way as hitherto.
>
> Otherwise we have no comments on the draft.

The timing is of course very important, It would be out of the question to tell the Transjordan Government four weeks before the action is to be taken, as would happen if the telegram went today and the action was not taken till the last of the three suggested dates (Feb. 1, 7 and 15). We must therefore ask you either to send the telegram for Kirkbride's own information (as soon as you like) altering the last sentence but one so as to instruct him to await a

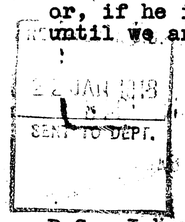
J.G.S. Beith, Esq.,
Foreign Office.

/further

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further telegram before informing the Transjordonians, or, if he is to talk when he gets it, to hold it up until we are sure that we are fairly near the day.

Yours sincerely,



P.S. I have now seen Hall-Patch's letter of 15/1 to Rowe-Dutton. I am sure that we shall not be at all happy about telling the Prime Minister as early as the 19th of this month what is going to happen; though we shall be quite happy, when he is told, to agree to assurances of re-admission.

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17

E

1910 PALESTINE

E 1042

24 JAN 1948

52

Registry Number E1042/4/31

TELEGRAM FROM U.K. Del

No. New York.

Dated 1944

Received in Registry 28 Jan 24

O.N.C. Says financial Questions re withdrawal.

Refers asked O.N.C. Says re financial and Economic questions arising from withdrawal in light of recent announcement by Mandatory. Have any indication that Commission will wish to discuss this question.

Requests earliest information re conclusion of Palestine Loan Sterling Area & Communiqué issued & earliest date

Last Paper.

1001

(Minutes.)

HB Feb. 9

References.

2nd P.P. 60-61 & U.K. Del N°19 BRIEF 30/1

HB Feb. 10

(Print.)

(How disposed of.)

C, Watkinson BV
Encoded Pol Diff
M.I.9
M04
Admty
Air Jan 26th

(Action completed.)

Feb 9/

(Index.)

18/1/49

Next Paper.

1100

30471 F.O.P

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OUTWARD TELEGRAM

FROM THE SECRETARY OF STATE FOR THE COLONIES

75872/154/27

Cypher (O.T.P.)

1042 7 11

TO UKDEL, NEW YORK

Sent 30th January, 1948. 10.00 hrs.

BRIEF No. 19 Secret

Addressed to UKDEL New York,
Repeated High Commissioner Palestine,
No. 354.

Public Duty for Trafford Smith. Begins.

Your telegram No. 174 of 23rd January.

Overseas Negotiations Committee's paper on financial and economic questions was endorsed by Economic Policy Committee on 27th January subject to confirmation by Cabinet on 29th January. I will let you know final outcome as soon as possible. Ends.

(Copies sent to Foreign Office for transmission to New York)

Copies sent to:

Foreign Office Mr. Beith

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54

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Cypher/OTP

DEPARTMENTAL 1042

24 JAN 1948

FROM NEW YORK TO FOREIGN OFFICE

(From United Kingdom Delegation to the United Nations)

No. 174
23rd January, 1948

D. 5.30 p.m. 23rd January, 1948
R. 11.00 p.m. 23rd January, 1948

Repeated to Jerusalem and Washington Saving.

IMMEDIATE

SECRET

Addressed to Foreign Office telegram No. 174 of January 23rd repeated Jerusalem and Washington Saving.

Following for Martin, Colonial Office from Trafford Smith.

[Begins]

Grateful to know when Overseas Negotiations Committee's paper on financial and economic questions arising from Palestine withdrawal is likely to be approved by Ministers.

2. There are indications that Commission will wish to discuss financial and economic problems in the near future and in any case they have already asked for factual memoranda to be submitted on a number of such points.

3. Reference your telegram Brief 9 regarding proposal that Palestine should leave the sterling area on 8th February, Fletcher-Cooke and I both feel that we should be authorised to inform the Commission of this decision in confidence at whatever date you think appropriate prior to 8th February. Commission is obviously sensitive to anything which (from its point of view) may seem to be unilateral action by His Majesty's Government and thus it would seem desirable as an act of courtesy, if for no other reason, to soften the blow by informing them of this important move as soon as possible.

4. In any case in view of this decision it will be quite impossible to discuss certain financial and economic problems with the Commission until after 8th February unless we can be authorised to inform them of what is contemplated.

Foreign Office please pass to Jerusalem as my telegram No. 25.

[Copies sent to Telegraph Section Colonial Office for repetition to Jerusalem and copy sent to Colonial Office for Mr. Martin.]

888

24 JAN 1948

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18

1948

E

PALESTINE

E 1100

27 JAN 1948

55

Registry Number E 1100/4/31

TELEGRAM FROM

No. Lord Inverchapel Washington

Dated

Received in Registry 13 Roman 26 Jan 27 –

Palestine: US Treasury funds.

US Treasury have asked us for a loan in sterling of £ 221,000 Palestine Pounds in Barclays Bank Jerusalem, arising from Tydy-Clayton arrangement. Take it that view will be taken of these funds when inaugurating new arrangement for Palestine sterling holdings.

Last Paper.

1042

References.

(Print.)

(How disposed of.)

& Mathesons BO
Lehman Cabaff
MI 3a
MO 4
admty
am. 27

(Minutes.)

ER Dept'l'd.
NA Dept'l'd 5/2

H.S. Bent
Jan 27

This is being dealt with by the Eny. Dept. 5

(Action completed.) 6/2

(Index) 18/2/48

Next Paper.

1103

30471 F.O.P

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156

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FROM WASHINGTON TO FOREIGN OFFICE

Lord Inverchapel.
No. 13 Remac. D. 5.14 p.m. 26th January 1948.
26th January 1948. R. 12.20 a.m. 27th January 1948.

IMMEDIATE.

United States Treasury have asked us to bear in mind that they hold 221 thousand Palestine pounds in Barclay's Bank Jerusalem, arising from Eady/Clayton arrangements. You will no doubt make sure that these funds are taken care of when inaugurating new arrangements for Palestine sterling holdings.

W:E:a:W:W

27 JAN 1948 REGISTRY

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19

E

1948

PALESTINE

57

E 1103

27 JAN 1948

Registry Number E 1103/7/31

TELEGRAM FROM

No. 8 MEO Cairo

Dated 4 Jan

Received in Registry 26 Jan 27

Cultural Exchange - Scientific Problems.

Mr Norman Young from Bernard.

H/C has informed that Bernard mentioned may be required on exchange control problems. Enough dollars to Palestine in near future. Bernard has arrived in the belief that Lucas is fully briefed, but discovers regret, earlier Bernard return immediately to London for brief discussions as D/England expert on Palestine

(Minutes.)

ER Dept

HB Jan 27

2nd P.P. Bd Std 584 30/1

HBFeb 6

Last Paper.

1100

References.

(Print.)

(How disposed of.)

8 Mathieson CO
1 Norman Bahoff
M.I.3a
MO4
Admty
am Jan 27 to E1130

(Action completed.) 2/2

(Index.)

Next Paper.

1113

30471 F.O.P

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Cypher/OTP

CAIRO/REMAC DISTRIBUTION

FROM BRITISH MIDDLE EAST OFFICE CAIRO
TO FOREIGN OFFICE

E 1 0 3

27 JAN 1948

No.4 Remac
26th January, 1948

D. 4.36 p.m. 26th January, 1948
R. 5.24 p.m. 26th January, 1948

Repeated to Jerusalem.

IMMEDIATE

Addressed to Foreign Office telegram No.4 January 26th, repeated to Jerusalem.

Top Secret.

Following for Norman Young from Curran.

High Commissioner for Palestine has been informed by the Colonial Office that my assistance may be enlisted on exchange control problems in connexion with proposed changes, through a visit to Palestine in the near future. Briant Palestinian Exchange Controller has arrived here for preliminary discussions in the belief that I am fully briefed regarding decisions and intentions of His Majesty's Government. As you are aware we have not (repeat not) received any information or instructions on this matter.

2. It would seem to me that the best course would be either for Briant to return to London immediately for brief discussions or for a Bank of England technical expert to visit Palestine. If however this cannot be done and you wish me to go to Palestine I would be grateful for as full a brief as possible.

k k k

27 JAN 1948

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19

PWE

OUTWARD TELEGRAM.

FROM THE SECRETARY OF STATE FOR THE COLONIES.

16479/35/48

Cypher (O.T.P.)

E 1103 / 7 / 31

INDEXED

TO PALESTINE (General Sir A. Cunningham)

Sent 30th January, 1948. 12.45 hrs.

MOST IMMEDIATE

No.324 Top Secret.

My telegram No.324.

Ministerial approval has now been given. No objection therefore to approaching Clarke in strictest confidence.

2. Your telegram No.160. Curran is here now for discussions. Will arrange for him to come to Jerusalem on or about 8th February, and will inform you of exact time of arrival. In view of your paragraph 1 presume his earlier arrival not desirable.

3. I appreciate that it might be extremely difficult for you to spare Briant, but it would be very helpful if he could come to London as soon as possible to take part in discussions now proceeding. You may, however, consider proposed visit might arouse intelligent speculation.

4. Detailed reply to your telegram No.160 follows as soon as possible.

Distributed to:-

D.44
Secretary of State
P.S. to Minister of State
Sir T. Lloyd
Mr. Rees-Williams
Sir S. Caine
Sir C. Jeffries
Mr. Holding
Mr. Martin
Mr. Trafford Smith
Foreign Office
" "
" "
Treasury
"
"
Bank of England
" " "

Mr. Gutch
Mr. Mathieson
Mr. Higham
Mr. Holmer
Mr. Eastwood
Sir G. Clauson
Mr. Butters
Mr. Boss

Mr. J.G.S. Beith.
Sir E. Hall Patch
Mr. Trevelyan.
Mr. Rowe-Dutton.
Mr. N.E. Young.
Mr. H.E. Brooks.
Mr. H. Siepmann.
Mr. Loombe.

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20

1948

E

PALESTINE

E 1113

27 JAN '348

60

Registry Number E1113/7/31

FROM Sloane-Sutton

No. Secretary

Dated 26 Jan & Hall-Patch

Received in Registry 27 Jan

24

Palestine and Transjordan and the Sterling Area
Transmits copies of letter to Munro-Hannan and Trant Bick. re withdrawal of Land Palestine and Transjordan from the Sterling Area.

Last Paper.

1103

References.

78/1

(Print.)

(How disposed of.)

Copy enclosure "C"
to Lt. A. Dodgson
U.K. del New York.

Copies
Sir. E. Hall Patch
Ref.
Jan 30
Tel w'ton 35 Cypher 30/1
" with HM " 4/2

(Minutes.)

See E1275 & action
JB Jan 31

(Action completed.)	(Index.)
12/2	19/1/49

Next Paper.

1274

29470 F.O.P.

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FROM FOREIGN OFFICE TO WASHINGTON

No. 41 CAMER

4th February 1948. D. 1.20 p.m. 4th February 1948.

IMMEDIATE
SECRET

My telegram No. 35.

Waight, Treasury Representative Middle East, leaves London today 4th February on B.O.A.C. flight 15 A 92 arriving Washington Thursday afternoon, 5th February. He will stay about two weeks in order to discuss with you and advise Cadogan.

2. Grateful if you would let Cadogan know about this.

3. Please arrange accommodation in Washington.

rrrrrr

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Treas. Ref.

Dear Mr. Burrows

If you agree please despatch

Mary Loughrane

Draft telegram to

H.M. [U.K.T.D.] WASHINGTON.

No. 41 CYPHER

Date 4/2/48

* CYPHER ~~XXXXXXXXXXXXX~~

Repeat to _____

No. _____ CYPHER

Repeat to _____

No. _____ CYPHER

DISTRIBUTION

_____

Copies to

_____

_____

* Delete where necessary

T.1150-47 12 noon

CYPHER

For Cypher Room use only

OUT FILE 62

DATE 2 FEB 48

Despatch

IMMEDIATE

SECRET.

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3. Please arrange accommodation in Washington.

JB Feb. 4

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Cypher/OTP

CAMER - REMAC

FROM FOREIGN OFFICE TO WASHINGTON

No. 35 Camer

D. 6.30 pm. 30th January, 1948.

30th January, 1948.

IMMEDIATE

SECRET

Rowe-Dutton wrote to you on 21st January about Palestine. You need take no action on this for the present since we are now proposing to send out somebody from United Kingdom.

ppp

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Nothing to be Written in this Margin.

Minutes.

Enclosure 64

Sir E. Hall-Patch has asked me to "take any necessary action on this correspondence (including that of sending a copy of what is necessary to Cadogan in N.Y.)

will Eastern Department please take this over.

H Trevelyan.
24/1/48.

E 1113
27 JAN 1948

Eastern Dept.

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Treasury Chambers,
Great George Street,
S.W.1.

22nd January, 1948.

Dear Edmund,

I enclose herewith copies of one letter to Gordon Munro ~~and three~~ to Curran, and one to Troutbeck.

You will see that I have sent Munro a copy of your letter to Cadogan. I apologise for not getting your permission first, but I thought I had better get it off as quickly as possible since time is moving against us.

Please do this 3.V.R. 27/1

In return no objection if you like to send to Cadogan a copy of my letter to Munro.

I am sending a copy of this letter and enclosures to Sydney Caine.

Yours sincerely,

P.M. Mitchell

Sir Edmund Hall-Patch, K.C.M.G.,
Foreign Office.

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A 66

22nd January, 1948.

Dear Curran,

I feel that events are moving perhaps even quicker than I anticipated and as you will see from my letter about Transjordan herewith, we shall have people from there in London over the week beginning 25th January. I am sure it would be very valuable for you to come over during that week and I should think that you ought to have two or three days to break the back of the Transjordan business. I should like you, therefore, to fly back so as to arrive here Thursday morning at latest. We can then discuss with you on Thursday and go into action with Perry Gordon at any time from then until he flies to Amman on Monday, 2nd February.

I do not want to telegraph about this subject so would you like to give the attached letter to Troutbeck. Although I have said you should not discuss this Palestine affair with anybody, this ought not to apply to Troutbeck, although it must be under conditions of Top Secrecy, i.e. orally rather than by dictated minutes.

Yours sincerely,

(Sgd) E Bevin Dutton

W.G.Curran, Esq.

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8 67

22nd January, 1918.

My dear Troutbeck,

I have asked Curran to give this little letter to you and to explain orally what is in the wind. I think we shall badly need his help to do a job of work between Jerusalem, Amman and Bagdad and in preparation we want him home for a few days. I am asking him to be back here next Thursday.

I do apologise for this short notice especially as Waight is not at the moment with you. I would have telegraphed earlier but it is not a subject I want to telegraph about just yet, and events are moving rather more quickly than we had anticipated.

Yours sincerely,

(Sgd) E. Rowe-Dutton

J.M.Troutbeck, Esq., C.M.G.
British Middle East Office.

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68

D

21st January, 1948.

TOP SECRET

Dear Curran,

I think it is very probable that we shall have to call on you for a special job lasting for perhaps three or four weeks and involving visits to Jerusalem and Transjordan.

The reason is that we feel it will be necessary at a pretty early date to put Palestine out of the sterling area and block Palestine's sterling balances. The attached paper which is a draft of a paper circulated by the Chancellor to the Economic Policy Committee - with very slight alterations - gives the story and I do not believe I need add very much.

We have already consulted the High Commissioner in Jerusalem and he has expressed agreement in principle with what we are doing, but begs that a Treasury or Bank of England representative should go to Palestine to give advice and act in a liaison capacity for a short while before and during the transition period. Although we fully realise that you are not an Exchange Control expert, we feel that you can give real help in this field and we here would find it extraordinarily difficult to spare anybody to go out just at present. It may be that the High Commissioner will be able to get help from Sweeting, but even so, I think we should want you to go.

I send you this by speedy airmail to get you thinking on the subject and it would be our intention within a very few days of the receipt of this news to ask you to come home for a few days to get last advice here and then to go back to Jerusalem and carry on.

/The

Harry G. Curran, Esq.,
British Middle East Office,
10, Sharia Tolumbat,
Cairo.

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The Transjordan part of the story is scarcely dealt with here and I will send you something further on this as quickly as possible; meanwhile this is to put you on warning and to have you thinking.

I am afraid you must look on this as absolutely Top Secret and you should not consult anybody at all about it. You will of your own knowledge have some quite useful experience arising out of the mistakes made by the Egyptians when sterling became a foreign currency in Egypt, as it will in Palestine, and also how to handle a limited amount of sterling available to residents in Egypt. The problems will be quite comparable and although we should not expect you to be responsible for the technical angle of matters, I feel quite sure that your experience and general ability will give the Government of Palestine very great help in tackling their problems with firmness and resolution.

Yours sincerely,

(Sgd) E.Rowe-Dutton

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TOP SECRET

21st January, 1948.

Dear Gordon,

I am afraid we shall have to bring you in to some extent to the Palestine trouble.

I think this is reasonably clearly set out in the attached paper and the draft announcement which goes with it. I also enclose for convenience of reference copy of a letter of 19th January from Hall-Patch to Cadogan, of which the Ambassador has had a copy.

You will see how difficult it is going to be for Cadogan to deal with all this without any help and I think we must ask you to make one of your people available to go up to help him. I do not at this moment ask you to do so, but send you these papers to study so that the request will not come out of the blue.

What I am sending you is the draft of a paper which - with trifling alterations - was put up by the Chancellor to Economic Policy Committee and was blessed by them. It was accompanied by another much longer paper on all sorts of questions, which I hope to be able to send you in due course.

I doubt whether I need elaborate at all on the reasons for putting Palestine out of the sterling area. It is obviously a part of the whole system that we must be able to rely upon the efficiency and loyalty of the local Exchange Control on whose sayso we grant dollars to the resident in the area concerned for what the local Control certifies has been proper purposes. So long as a country is in the sterling area you will realise that we are in a weak position to refuse any given demand and we have to operate either by persuasion as in the case of the Dominions or by fixing a ration which

/means

Sir Gordon Munro, K.C.M.G.,
H.M.T.D.,
Washington.

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means pretty effective control at the local end to be sure that the ration is not exceeded, or by directions from London as in the case of the Colonies. The latter would obviously not be applicable when we have laid down the Mandate.

Not only that, but while the country is in the sterling area funds can be freely remitted to that country from the U.K. If therefore it is in a leaking situation, you will see that it could conceivably afford a loophole for funds attempting to get out of U.K.

On that score, I think our case is easy enough to argue and understand, although no doubt the Jewish element will be unhappy at the holding up of remittances from this country to their co-belligerents. We see it however that such remittances in the end mean exports to Palestine and are thus a burden on our balance of payments which we cannot afford.

This leads straight on to the second part of the question, namely why we should block Palestine sterling balances. This is pretty fully argued in the paper and as you will see the truth is that they are being run down far too quickly. Palestine has to import or does in fact import on far too heavy a scale considering her own export potentialities. She has built up sterling balances during the war because of war conditions, including in particular the presence of British troops in the country. Once they are withdrawn she will undoubtedly feel a draught and would no doubt like to continue the imports on her present scale by drawing down existing

/balances

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balances until they are exhausted. We cannot afford "unrequited exports" on that sort of scale and Palestine's condition when the balances were exhausted would be lamentable.

There are plenty of headaches not only in this particular aspect but in the other questions arising out of the laying down of the Mandate, and I feel pretty sure that the more the U.K.T.D. can study them and lend its support both to the Embassy in general and Alec in particular as required, the better it would be.

Yours sincerely,

(Sgd) E.Rowe-Dutton

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CYPHER

Treas. Ref. _____ For Cypher Room use only

DATE _____

Despatch _____

Dear **Trevelyan,**

If you agree please despatch

Draft telegram to

H.M. **Ambassador,**
Washington.

No. 35 CAMER

Date 29.1.1948.
30.1.48.

* CYPHER CODE EN CLAIR

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T.1315-47

IMMEDIATE
SECRET.

Rowe-Dutton wrote to you on 21st January about Palestine. You need take no action on this (for the present) since we are now proposing to send out somebody from U.K.

HR.

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TOP SECRET

TREASURY CHAMBERS.
S.W.1.

22nd January, 1948.

Dear

Transjordan will have to leave the sterling area with Palestine because she uses Palestine currency (the Egypt/Sudan story over again). We know however that the Transjordan authorities have for some time been considering the possibility of a currency change and we believe they are toying with the idea of adopting Iraqi dinars. This would be the most sensible arrangement, for a new separate currency would be a great extravagance for a country with a circulation of some £1½ mn and would take a year to introduce, whereas the change-over to Iraqi dinars could probably be made within three months at the outside. It would of course involve consultation with the Iraqis (we shall probably suggest to Transjordan that you should go to Bagdad and help them over this) and various technical arrangements in which you could assist.

Meanwhile we shall have to consider how to ensure that Transjordan has adequate supplies of Palestine currency notes in the interim period, perhaps by getting the Ottoman Bank in Amman to hold a nest-egg. We shall have to arrange that the sterling arising from any redemption of notes presented in Transjordan is paid to blocked account: otherwise there will be large-scale smuggling of notes from Palestine.

We hope it will not be too difficult to segregate Transjordan's commercial sterling balances, the bulk of which are probably held through the Palestine branches of the banks. We believe they amount to well under £1 mn and we do not propose to block them. But Transjordan will have to introduce exchange control over sterling if she does not want to provide a loophole at the expense of her own sterling resources for money escaping from Palestine.

As soon as Transjordan starts using Iraqi dinars (assuming they do) we shall have to readmit them to the sterling area (they could not use a sterling area currency and stay out any more than they could use a non-sterling area currency and stay in).

We must then (or indeed earlier, as we shall in the meantime continue to meet their hard currency requirements) talk to them seriously about their exchange and import controls, which at the moment are deplorably inadequate. With Palestine out of the area this will matter much more than it does now.

All these, and various subsidiary questions, will need a good deal of thinking about and we hope to discuss them here with you and Pirie-Gordon from Amman next week. We shall also have to decide when to break the news to the Transjordan Government (their Prime Minister will be in London next week too). At some stage we shall certainly want you to visit Transjordan. Meanwhile this letter will give you some idea of the problems to be handled.

H.G. Curran, Esq.,
B.M.E.O.,
10, Sharia Tolumbat,
Cairo.

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1948

Palestine

EASTERN

E 1274 /G 73

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E 1274/Y/G 31/G

Cabinet Office ON (48) 56

Dated 23 Jan

Financial questions arising from withdrawal of British authority from Palestine

Last Paper.

E 974

References.

(Print.)

(How disposed of.)

Minute P.M.

P.M/48/14

24 Jan

(Minutes.)

JB Feb. 5

See within.

1. Minute by P.M. Jan 26.

(Action completed.)	(Index.)
25/2	

Next Paper.

30471 F.O.P.

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SECRETARY OF STATE FOR FOREIGN AFFAIRS. 74

E 1274/1/G.

10, DOWNING STREET,
WHITEHALL,

26th January, 1948.

COPY OF MINUTE BY THE PRIME MINISTER.

Reference: Foreign Secretary's minute to the Prime Minister dated 24.1.48 about financial and economic questions resulting from the withdrawal from Palestine.

"Yes.

C.R.A.

25.1.48."

Copy also sent to:

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Minutes. 75

24th January, 1948.

As directed by the Secretary of State I attach a draft minute from the Secretary of State to the Prime Minister on the question of Palestine.

29 JAN 1948

Nothing to be Written in this Margin.

Private Secretary

29 JAN 1948 E

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SECRET

C.N.(48) 56

E 1274

COPY NO. 58

23RD JANUARY, 1948

29 JAN 1948

CABINET

OVERSEAS NEGOTIATIONS COMMITTEE

PALESTINE

Note by the Secretary

I circulate herewith, for the information of the Committee, the Report on the Financial and Economic Questions arising from the withdrawal of British Authority from Palestine, which will be considered by the Economic Policy Committee on Tuesday, 27th January.

This is the report prepared by the Committee (C.N.(48) 15) with subsequent amendments to paragraphs 31 - 38 (German Assets).

(Signed) G.M. WILSON

Cabinet Office, S.W.1.

23RD JANUARY, 1948.

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SECRET

22nd January, 1948

CABINET

FINANCIAL AND ECONOMIC QUESTIONS ARISING FROM THE WITHDRAWAL OF BRITISH AUTHORITY FROM PALESTINE

REPORT OF THE OVERSEAS NEGOTIATIONS COMMITTEE

Introductory

THE Overseas Negotiations Committee were asked to prepare, for consideration by Ministers, a comprehensive paper on financial and economic questions arising out of the withdrawal of British authority from Palestine (C.M. (47) 93rd Conclusions, Minute 1).

2. This report has been prepared on the basis that as far as practicable it should be assumed that the United Nations plan will be put into effect. In fact, however, as far as can be foreseen, the Palestine Arabs supported by the Arab States will boycott the United Nations Commission and refuse to co-operate in the establishment of an economic union of Palestine administered by a joint economic board. Unless the Commission is furnished with a force by the United Nations for the maintenance of order, it seems likely that guerilla warfare and confusion will reign in the areas evacuated by British troops. The confusion may well be increased by the migration of Jews and Arabs from areas where they are in a minority. The Jews will probably have to defend themselves within an enclave limited by military requirements; the remaining part of Palestine will be in Arab hands but is unlikely to be constituted as an Arab State since this would represent acquiescence in the partition plan. Where, therefore, any breakdown of the United Nations Plan would vitally affect our financial and economic interest in Palestine the relevant portion of the report will point this out and the recommendations will take account of it.

3. Very broadly the United Nations Plan provides: (*a*) that the mandatory Powers shall hand the administration of Palestine over to a Commission appointed by the United Nations which shall establish Arab and Jewish States and an international State in the City of Jerusalem; (*b*) that these States shall be united in an economic union of Palestine among whose principal objectives will be a Customs Union and a Joint Currency system providing for a single foreign exchange rate; (*c*) that there shall be established a Joint Economic Board, whose functions will be to implement either directly or by delegation the measures necessary to realise the objectives of the Economic Union. Until the Joint Economic Board is functioning (if indeed it ever does) the United Nations Commission will have full responsibility for financial and economic administration.

4. A separate submission is being made by the Treasury, proposing that—

(*a*) Palestine should leave the Sterling Area;
(*b*) Palestine's sterling balances should be blocked; and
(*c*) the Palestine Currency Board should continue to operate for the present.

The rest of this paper has been prepared on the assumption that these proposals are approved. (If Palestine's sterling balances are to be blocked, it will be necessary for the Committee to consider the level of the releases to be made.)

Oil Interests

5. Palestine is highly important to the British oil position, since oil produced in Iraq by the Iraq Petroleum Company is piped by them across Palestine to the Company's tank farm near Haifa, from which they feed crude oil to the

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Consolidated Refineries Limited. Approximately 2 million tons per annum of crude oil are now derived from this pipeline and 1 million tons each are shipped on British Companies' account from Tripoli and the Persian Gulf. It is hoped that the refining capacity at Haifa will be increased to produce from 7–9 million tons per annum by 1951, using the increased quantities of crude oil which should flow through the new pipeline now under construction.

6. The crude oil produced by the Iraq Petroleum Company is owned as to 47½ per cent. by British interests, as to 23¾ per cent. by United States interests, as to 23¾ per cent. by French interests, and as to 5 per cent. by a Mr. Gulbenkian. The Consolidated Refineries Limited are 100 per cent. British-owned.

7. The Iraq Petroleum Company and Consolidated Refineries Limited operate in Palestine under agreements with the Palestine Government due to expire in January 2001 and October 2003, respectively. In the United Nations Plan of Partition with Economic Union, Chapter 3, paragraph 3 (*d*) stated "Commercial concessions granted in respect of any part of Palestine before such adoption of the resolution by the General Assembly shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State." The operation of the two companies should be protected by this article. The Iraq Petroleum Company have, however, a number of other agreements with the Palestine Government and Municipalities involving such considerations as mining rights, water projects, occupation of land, &c., which they would also wish to have safeguarded.

8. Because of the shortage of refining capacity throughout the sterling area and the rest of the world, the loss of the refinery at Haifa, or any attempt by the local government to restrict or direct export of petroleum products, or to interfere with imports of machinery, raw materials and crude products, essential both for normal requirements and maintenance of the refinery and pipelines and for expansion schemes, would have a most serious effect on the oil situation in the sterling area. Palestine and other neighbouring States draw their requirements of petroleum products from the refinery at Haifa and interference with the production or the products would, therefore, also have serious repercussion on those States. It would also seem to be against the interests of a Jewish successor Government in Palestine to take any action which would close Haifa refinery or restrict its activities, since this would lose for them an important source of revenue. Current annual expenditure by the British Oil Companies on loading dues, taxes, rents, wages, purchase of local materials and capital costs is estimated at about £5·25 million, and will be considerably higher when the expansion schemes have been completed and are operating.

9. At the moment the Refinery Company never owns the oil that it processes. It is remunerated on a fee basis and, as its sole shareholders are Companies that distribute the refined product, this fee may be less than would be charged by an outside concern. There is a possibility that the successor Government will be attracted by the opportunity of earning hard currency or gold presented by the existence of the refinery on its territory. Assuming that it respects the terms of the convention signed by the Mandatory Government in 1933, it cannot secure an appreciable return from the Company by way of taxation or port dues certainly until 1958 and probably not before the beginning of next century.

10. The successor Government may, however, attempt to secure an exchange profit either by—

(*a*) insisting that the Refinery Company increases its processing fee to the full "economic" level and receives some part of the fee in gold or hard currency, or

(*b*) more likely—laying down that all oil refined in Palestine must be sold for dollars.

Whether the successor Government will really give way to this temptation is unknown. If it did and succeeded the result would be extremely serious. The production of the Haifa refinery will increase during the next few years. If the oil companies have their way the British share alone will be 7½ million tons in 1950 and the difference in cost between the crude oil intake (for which presumably we would charge Palestine dollars in the circumstances envisaged) and refined oil output is of the order of £20 million at present prices.

11. Alternative 10 (*a*) therefore would mean our paying a fair proportion of this amount in gold; alternative 10 (*b*) would mean paying in dollars for that proportion of the Haifa output that was consumed in the sterling area.

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12. On the other hand, we are not without weapons with which to oppose such an attempt by the successor Government, *e.g.*, (*a*) we could refuse to proceed with the expansion of the refinery and the pipeline across Palestine which this involves, (*b*) refineries wear out pretty quickly and we could in the last resort (and at considerable expense to ourselves) transfer the refinery elsewhere, (*c*) dollar-invoicing is a game at which two can play and Palestine must take an appreciable part of her imports from the sterling area

13. For the moment it is difficult to see what can be done to ward off the prospect of the successor Government adopting such tactics. We certainly do not want to delay the expansion of Haifa longer than we are already likely to be forced to delay it by shortages of plant and material. On the other hand if, during the discussions, there is any hint that we are going to be faced with this sort of demand, His Majesty's Government should have early warning in order to reconsider the policy in regard to the refinery.

13A. It should be mentioned that the Iraq Government have expressed anxiety about the future of the Haifa refineries in view of their interest in the exports of Iraqi oil through that port.

13B. The effect of the establishment of a Jewish State on the existing and projected pipelines also requires careful examination. Arab States may well make difficulties over way-leaves of pipelines whose terminals are to be in the Jewish State. American pipeline construction may be difficult in Arab countries for some time to come.

Recommendations

14. It is recommended that Sir Alexander Cadogan should seek to establish with the United Nations Commission—

(*a*) that all agreements between the Palestine Government and the Iraq Petroleum Company Limited and Consolidated Oil Refineries Limited respectively should be treated in accordance with Chapter 3, paragraph 3 (*d*), of the Plan of Partition with Economic Union, *i.e.*, that they shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State;

(*b*) that the British oil companies in Palestine should be free to export petroleum products to such destinations as they choose.

It is further recommended that Sir A. Cadogan should be asked—

(*c*) to give early warning of any hint that the Commission may be considering dollar-invoicing the products of the Consolidated Refineries Limited.

Assets and Liabilities

Fixed Assets in Palestine of His Majesty's Government

15. Details of the value of the fixed assets constructed by the Service Departments in Palestine have been requested from the Middle East but this information has not yet been received. It is believed that the bulk of the assets are sited on requisitioned, hired and expropriated land. Many of these assets are of military value only but others would have considerable civilian-use value. The Service Departments are endeavouring to sell the assets which have been constructed on freehold land, but sales of assets of major political significance will only be made with the concurrence of the Palestine Government.

16. In the absence of the report referred to, only very tentative estimates of the value of the assets can be made, but the salvage value of assets constructed on hired, requisitioned or expropriated land is believed to be of the order of £2 million and the value to a willing purchaser would probably be substantially higher.

17. It is the view of the Palestine Government that if titles remain in their present form, *i.e.*, vested in the High Commissioner, there might be a difficulty in asserting the rights of the Service Departments of His Majesty's Government in this land after the termination of the Mandate when the office of the High Commissioner will presumably cease to exist. This land was vested originally in the High Commissioner on behalf of the Service Departments concerned, presumably to avoid any question arising of challenge under Article 5 of the Mandate, but it seems clear that the provisions of this article were not

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intended to preclude ordinary acquisition of private rights to land, *cf.* leases granted to foreign consulates and the British Army in Palestine.

18. It is the conclusion of the High Commissioner that the safest and most effective means of protecting the interests of His Majesty's Government in this land is to vest it directly in the Service Department concerned, either by a special ordinance or otherwise, and he has so informed the Military Authorities concerned in Palestine. It is their policy to endeavour to sell off all immovable assets with the least possible delay but, both because this may mean considerable loss and because in the time and with the staff available it may not prove possible to dispose of all property, some such method of protecting His Majesty's Government's interests appears necessary.

Movable Assets

19. The only known movable assets of His Majesty's Government remaining in Palestine after the termination of the Mandate will be military stores. A detailed note on these is given in Appendix B.

Liabilities of the Palestine Government

20. The appointment of a United Nations Commission as an administering authority for the whole of Palestine to take over the administration of the country following the termination of the Mandate involves the question of the negotiations to be carried out for the surrender of the assets of the Palestine Government and the terms upon which such a surrender should be made. In such negotiations it is essential that clear distinction is drawn between the assets of the Palestine Government and the assets of His Majesty's Government.

21. The Commission will, no doubt, be guided by the financial clauses of the Plan of Partition with Economic Union and these present some difficulties as to the definition of the obligations of the Palestine Government, the means which would be available to honour the obligations taken over by the Commission and the handling and distribution of governmental movable and immovable assets.

22. The assets of the Palestine Government might be summarised as follows :—

(i) General revenue balances.
(ii) Funds for specific purposes.
(iii) Funds in respect of Public Debt.
(iv) Government lands, buildings and stores.
(v) Internal loans.
(vi) Trust funds.
(vii) Palestine 3 per cent. Defence Bonds and Palestine Savings Certificates.

23. The liabilities of the Palestine Government might be summarised as follows :—

(i) Budgetary expenditure until termination of the Mandate.
(ii) Public Debt.
(iii) Specific obligations in respect of the right of public servants, including pensions, compensations or gratuities.
(iv) Specific obligations under Palestine Ordinances.
(v) Contingent liabilities.

24. These assets and liabilities are individually dealt with in Appendix B, except for the special problems arising on the Public Debt of Palestine and on Pension obligations, which are explained in the following paragraphs.

25. *The Public Debt of Palestine* consists of :—

(i) £P.3,600,000—3 per cent. Guaranteed Loan, 1962–67;
(ii) War Loan (Bearer Bonds), 1st, 2nd. 3rd and 4th issues, totalling £5,791,960.

The 3 per cent. Guaranteed Loan, less stock redemptions, at 31st March, 1947, stood at £P.3,150,000. This stock is guaranteed as to principal and interest by the Treasury under an Act of Parliament of the United Kingdom of Great Britain and Northern Ireland entitled " The Finance Act, 1939 " (24 and 25 George V, cap. 32).

26. The operation of the Joint Economic Board to be set up under the Partition Plan makes provision for the service of the outstanding public debt of the

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Palestine Government. An agreement with the United Nations Commission safeguarding the servicing of the 3 per cent. Guaranteed Stock and War Loans (Bearer Bonds) should be a major objective of our financial negotiations.

Pension Obligations

27. Palestine Government have pension obligations under Palestine Ordinances as well as obligations in connection with the Palestine Provident Fund, Widows' and Orphans' Pensions Fund. In addition, the Palestine Government have not yet finalised their views as to the payment of compensation and gratuities to public servants and to the police on termination of the Mandate. Preliminary views of the Government of Palestine have indicated that their proposals may involve a sum of £P.18 million on the basis of " funding " pensions. However, it may be possible to arrive at some more economical method of meeting the charge. The position of expatriate officers of the Palestine Civil Service will need careful consideration. In the main it is hoped that the majority will be found other employment in the Colonial Service but there may be a small residue who cannot be so placed for some while after the termination of the Mandate.

Qualifications on Acceptance of Financial Obligation

28. 3 (*a*) of Chapter 3 of the Report of the United Nations *Ad Hoc* Committee on the Palestinian Question imposes a qualification as to the financial obligations which the State shall respect and fulfil. While saying that all financial obligations of whatever nature assumed on behalf of Palestine by the Mandatory Power during the exercise of the Mandate shall be respected and fulfilled, there is the important overriding condition that such obligations would be those recognised by the State. The United Kingdom delegation has reserved His Majesty's Government's position regarding any clauses in the Plan, and we must resist this qualifying condition to the extent of making the unqualified acceptance of the obligations of the Palestine Government a condition for the surrender of its assets.

Means of Meeting Obligation

29. Then there is the question of the means which the Commission will employ to meet certain charges arising out of the obligations taken over. As to the servicing of the public debt and the cost of superannuation benefits now being paid or falling due in future, the Partition Plan envisages these charges as being met from the common revenue of the Joint Economic Board. This presupposes that this Board will be set up and function satisfactorily; but this would appear to be a doubtful proposition in present circumstances. Should there be difficulties in setting up (*a*) the respective States, which seems probable in the case of the Arab State, and (*b*) the Economic Union, the Commission may not be in a position to implement its agreement to discharge the liabilities taken over unless there are safeguards against such a contingency.

Recommendations

30. It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure—

(*a*) that a clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government,

(*b*) that the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government departments with freedom to dispose of such assets as may seem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked—

(*c*) to discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles :—

(*d*) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine Government (there is every indication that the liabilities will exceed the liquid assets).

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(*e*) That notwithstanding clause 2 of Section E of Chapter 4 of the U.N.S.C.O.P. Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and

(*f*) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3 per cent. Guaranteed Stock, and for payment of superannuation benefits.

German External Assets in Palestine

31. *The General Background.*—By the decision of the Berlin Conference of July–August, 1945, it was decided that, "the reparation claims of the United States, the United Kingdom and other countries to reparations shall be met . . . . and from appropriate German external assets." By the provisions of Article 6 of Part I of the Final Act of the Paris Conference on Reparation, "each signatory Government shall, under such procedures as it may choose, hold or dispose of German assets within its jurisdiction *in manners designed to preclude their return to German ownership or control and shall charge against its German reparation share such assets.*" Article 2 of Part IV of the Final Act states that "the signature of each contracting Government shall be deemed to mean that the effect of the present Agreement extends . . . . to territories under its protection or suzerainty or over which it at present exercises a mandate." Under Article IF of the Final Act of the Paris Conference on Reparation, the Inter-Allied Reparation Agency must charge the reparation account of each Signatory Government for the German assets within that Government's jurisdiction, and each Signatory Government is required to render a return of the value of such assets as defined under Article 6 of Part I of the Agreement. His Majesty's Government signed the Paris Agreement on the 21st December, 1945, when it exercised a mandate over Palestine. Under the Final Act of Paris the share to be allocated to the United Kingdom (including all areas under its jurisdiction) of the *total* of German external assets, known as Category A, which are found to be available, is 28 per cent. This means in effect that the United Kingdom is entitled to 28 per cent. of the *total* of all German assets in all the eighteen countries signatory to the Final Act of Paris, which includes the United Kingdom, plus any other external assets, *e.g.*, those made available in Neutral Countries.

32. The position of German assets in Palestine under the international arrangements described above, and His Majesty's Government's responsibility in regard thereto, is thus :—

(1) While these assets are within His Majesty's jurisdiction—

(i) His Majesty's Government is required to see that German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control;

(ii) His Majesty's Government must ensure that, while these assets remain under her jurisdiction, as at present, the value of them is included in the United Kingdom returns to the Inter-Allied Reparation Agency;

(iii) the Inter-Allied Reparation Agency is required to charge His Majesty's Government's share with the *value* of these German assets in Palestine;

(iv) it is possible that His Majesty's Government may escape responsibility for accounting for such German assets in Palestine as remain *unliquidated* when Palestine ceases to be within His Majesty's jurisdiction, if it can be shown that circumstances have rendered His Majesty's Government impotent in respect of these assets;

(v) all assets in liquid form at the time when Palestine ceased to come within United Kingdom jurisdiction would be accountable to I.A.R.A. by United Kingdom whether transferred or not.

NOTE.—During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other asset.

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(2) All accountable German assets in Palestine are included by the Inter-Allied Reparation Agency in determining the total of Category A assets for reparation purposes, and all German assets in Palestine as defined for I.A.R.A. purposes are reparations.

German External Assets under the Control of the Custodian of Enemy Property for Palestine

33. The total estimated value of these assets is £8·8 million, and there are additional assets of perhaps twice this value belonging to Germans interned in Palestine and in Australia, and other Germans resident in Germany. These latter assets, or the proceeds of their sale, may be released to such of the owners who may not be within the legal (Custodian) definition of "enemy." Such released assets would not be accountable to the Inter-Allied Reparation Agency. After adjustments made under I.A.R.A. accounting rules for external assets the final sum hitherto considered as likely to be included ultimately in Category A in respect of German enemy assets in Palestine is £4 million. The amount of this at present in liquid form is probably less than £1 million.

Steps taken by His Majesty's Government to secure control and transfer of German enemy assets in Palestine

34. The High Commissioner for Palestine has been asked to instruct the Custodian of Enemy Property for Palestine not to vest further any German property which may have to be released (*e.g.*, internees' property). He has also been asked to consider measures whereby as much of the immovable property as possible can be liquidated. The High Commissioner has also been asked to advise on the possibility of transfer to the United Kingdom of all liquid assets now available and which become available as the proceeds of sale of assets. Arrangements have been made for an immediate visit to Palestine by a Treasury representative to investigate the position on the spot and see what steps it would be practicable and wise to take in the direction of liquidation of assets and transfer of the proceeds.

Possible Financial Effects

35. In the first estimate of German assets within the United Kingdom jurisdiction which has been made to the Inter-Allied Reparation Agency, the sum of approximately £2 million has been included on account of these assets. The provisions of the Paris Act enable us to adjust this estimate later according to the facts. The fact that we are obliged to account for assets, the value of which we know for certain, *e.g.*, because they have been liquidated, but are unable in fact to secure the transfer to the United Kingdom Exchequer, would mean that our participation in other assets under Category A of Part I of the Final Act, would be reduced. One effect of this might be to reduce our share of Swiss francs derived from the disposal of German assets in Switzerland. This reduction would not be the equivalent of the value of German assets in Palestine which we had included in the I.A.R.A. return, but would definitely reduce our share to an extent which at the moment cannot be forecast.

Jewish Claims for reparation payments

36. The Jewish Agency have hitherto claimed that, as compensation for the sufferings of Jewry under the Nazis, Palestinian Jews should receive compensation out of reparation payments over and above that already provided for in the Final Act. This provision (Article 8, Part I) allocates $25 million from German assets in neutral countries, and non-monetary gold in Germany and other assets in Germany, making an overall total of approximately $30 million. Jewish propaganda will no doubt claim that morally the whole of German assets in Palestine should be earmarked for this purpose. The Jewish Agency has already been informed that contributions from reparations for the rehabilitation of non-repatriable victims of German action are governed by the Final Act of Paris. Any contribution to Palestine over and above the agreed Palestine share of reparation can only be made at the expense of His Majesty's Goverment, whose responsibility it is to account for all these assets, the non-receipt of which would adversely affect the reparations receipts of the United Kingdom Exchequer. As these assets are reparations the Inter-Allied Reparation Agency has a responsibility to see that they are included in the total pool of Category A assets.

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Conclusions

37. His Majesty's Government's interests would best be served financially if :—

(*a*) All liquid assets were transferred out of Palestine and within the jurisdiction of the United Kingdom, before the mandate was relinquished.

(*b*) As much property as possible was henceforth liquidated before the mandate ended (provided that it is transferred as in (*a*) above).

(*c*) In the arrangements to be made with the United Nations Commission, we secured the inclusion of a statement describing the international responsibilities as regards German assets in Palestine which remain unliquidated, and therefore not transferred as in (*a*) and (*b*) above, and also secured from the United Nations Commission a recognition of these responsibilities which, so far as it was able, the Commission would accept as dischargeable to the Inter-Allied Reparation Agency through His Majesty's Government. (A primary responsibility is that these assets are so held or disposed of as "to preclude their return to German ownership or control"—Article 6A, Part I of the Final Act of Paris.)

It is clearly recognised that to take the lines described in (*a*) and (*b*) may, even with the most skilful presentation of the facts as to the position of these assets, and their setting within the field of international reparations relations, be the occasion for bitter accusations that we are robbing the Palestinians of German assets which belong to them. This is a matter which lies very close to the hearts of Jewish refugees from Germany in Palestine. There are several good answers which, in a reasonable atmosphere, should completely rebut such accusations, viz. :—

(1) Provision has already been made out of reparation assets for suffering Jewry. The provision in the Final Act (Article 8) is relatively generous. It amounts to about $30 million which is equal to above 5 per cent. of all Category A assets or to the combined shares of Norway and the Netherlands.

(2) These assets should form part of the whole pool of German external assets and would be applied by the United Kingdom to meet the claims of all the colonies, some of whom were more hardly hit than Palestine, *e.g.*, Malta.

(3) Palestine, under the arrangements contemplated for dealing with the German assets under United Kingdom jurisdiction, will receive her just proportion of the United Kingdom's share of 28 per cent.

38. A decision upon action designed to accomplish (*a*) and (*b*), and as to (*c*), turns very largely on what is found, particularly as regards (*a*), in Palestine by the Treasury representative to be practicable, and, so far as can be judged from the Palestine end, least likely to plunge the whole question into a hopeless atmosphere of unreason and prejudice.

It is recommended that a final decision on implementing the policy which would best serve His Majesty's Government's interests financially, described in (*a*), (*b*) and (*c*) of paragraph 37, should await the report of the Treasury representative now in Palestine, it being understood that so far as can be determined at present any alternative to the policies advocated in (*a*) and (*b*) must definitely result in serious loss to the Exchequer some of which will be in terms of lower receipts of hard currency (Swiss francs from German assets in Switzerland).

Palestine's Membership of International Economic and Financial Bodies

39. The Official Committee on Palestine are reviewing and making recommendations on all international obligations (including, *e.g.*, membership of international, economic and financial bodies) assumed by the United Kingdom on Palestine's behalf.

Safeguards for Commercial Interests

40. We need to safeguard our commercial position in Palestine in the interim period between the laying down of the Mandate and the negotiation of long-term agreements with the successor States. Our object should be to negotiate an arrangement with the Commission which will safeguard our position, not only while the Commission is actually administering the territory, but for an interval thereafter sufficient to give us time to negotiate commercial treaties with the successor States. It follows that we shall have to try to persuade the Commission to place some restraints on the economic freedom of the new States for the first year or two of their existence.

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Treatment of Goods

41. The protocol of provisional application of the General Agreement on tariffs and trade does not extend to Palestine until notice has been given in accordance with paragraph 2 of that protocol. It is undoubtedly in our interests that Palestine should apply the rules of the agreement on tariffs and trade. It is for consideration whether His Majesty's Government should, while they are still responsible for the administration of Palestine, give notice in accordance with paragraph 2 of the protocol to extend the application of the General Agreement on tariffs and trade to Palestine. The Palestine Government are being consulted on this point, but, subject to their views, it is proposed that we should give notice of the provisional application. If this proposal is approved, Sir Alexander Cadogan should presumably first inform the Commission that this is what His Majesty's Government propose to do, since Palestine will obtain the tariff concessions negotiated at Geneva only if she in her turn makes her concessions effective, and seeks the agreement of the Commission to the adoption of this course, and to their carrying forward the application when they take over. The Commission should also be asked to ensure that in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years should be obtained from them.

42. We can support our request by reference to the fact that, under the terms of the Mandate, Palestine was bound to grant equality of treatment to the goods, nationals, &c., of all members of the League of Nations (and by a separate agreement to the United States) and that this had to be given even if one of the countries concerned discriminated against Palestine. The line our representative should therefore take with the Commission is that Palestine has always followed a policy of non-discrimination in commercial matters and it is hoped that the policy will be continued under the Commission's régime, and further, that for the first two years of their existence the successor States shall be under an obligation to grant most-favoured-nation treatment to all members of the United Nations that accord the same to them.

The above general rule of non-discrimination would not be applied in such a way as to prevent Palestine making special customs agreements with neighbouring territories, *cf.* the existing preferential tariff arrangements with Syria and Lebanon.

Treatment of Nationals, Companies, Shipping and Civil Aviation

43. When the Mandate is terminated we shall have no treaty rights in Palestine for our nationals, their businesses or our shipping and civil aviation. In the long term these can only satisfactorily be safeguarded by the negotiation of a treaty of establishment and navigation with the successor States. It will not be practicable to negotiate detailed provisions with the U.N.O. Commission, and to cover the position in the interim period we shall have to rely on a *modus vivendi* expressed in fairly general terms.

Recommendations

44. It is recommended that Sir A. Cadogan should be asked—

(*a*) on the treatment of goods, to discuss the question with the Commission on the lines proposed in paragraph 41;

(*b*) on the treatment of nationals, companies and shipping, to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most-favoured-nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions customarily included in commercial treaties. Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

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Exports from Palestine which are Essential to the United Kingdom

45. The main exports from Palestine of interest to the United Kingdom (other than petroleum products covered in paragraphs 5–14) are :—

(*a*) Potash;
(*b*) Food-stuffs, mainly citrus fruit and fruit products.

Separate notes on these are in Appendix C.

Recommendations

46. It is recommended that Sir A. Cadogan be asked to request the United Nations Commission to facilitate the exports of citrus and potash to the United Kingdom.

Procurement of Food-stuffs and Fertilisers

Food-stuffs

47. The Ministry of Food has hitherto dealt with the programming, sponsoring and procurement of food supplies for Palestine.

48. Requirements of bread grains and rice for part of 1948 have already been considered by the I.E.F.C. The Food Mission in Washington have been asked within the last week to submit to the I.E.F.C. requirements of oils and fats for Palestine, as part of general Middle East requirements.

49. Certain quantities of the allocated foods for 1948 have been or are in course of being procured. Some small balances of Palestinian 1947 requirements yet remain to be shipped.

Fertilisers

50. The United Kingdom sponsors the requirements of the Colonies and Mandated Territories with the International Emergency Food Council in Washington. The only fertiliser now under international allocation by that body is nitrogen and the allocation of this fertiliser to Palestine for the fertiliser season ending 30th June, 1948, is 2,667 metric tons of N. Of this total, the United Kingdom is to supply 1,267 tons, Belgium 1,100 tons and Norway 300 tons. United Kingdom deliveries are made through I.C.I. (Levant), but procurement of supplies within the Belgian and Norwegian allocations is made by the Palestine Government, with such guidance as may be required from His Majesty's Government. It has been the practice in the past for the Palestine Government to use the I.C.I. (Levant) for procuring all supplies of nitrogen, but recently Norway has appeared to be unwilling to continue this arrangement.

Recommendations

51. It is recommended that Sir A. Cadogan be asked—

(*a*) to inform the United Nations Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May, the latest date for the termination of the Mandate;
(*b*) to inform the United Nations Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently;
(*c*) if the United Nations Commission request us to continue *as agents* procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions, but to give no indication that we should be prepared to act as agents in this matter for any considerable period.

52. Approval is sought for the following recommendations :—

(*a*) Oil interests (paragraph 14).
(*b*) Assets and liabilities (paragraph 30).
(*c*) German assets (paragraph 38).
(*d*) Safeguards for commercial interests (paragraph 44).
(*e*) Exports from Palestine (paragraph 46).
(*f*) Procurement of food-stuffs and fertilisers (paragraph 51).

22*nd January*, 1948.

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APPENDIX A

Stores in Palestine

There are large quantities of military stores (Naval, Army and Air Force) in Palestine. A considerable proportion of these stores constitutes part of the approved maintenance and reserve stores for the Middle East garrisons and the Army generally, and with the existing and prospective stringency of financial provision for the Services the necessary replacement of such stores, if they had to be abandoned in Palestine, would be extremely difficult. It is essential that every effort should be made to withdraw all military stores, which we desire to retain, from Palestine as part of the general evacuation of that country by the Forces.

The evacuation of military stores from Palestine has already begun and is to proceed *pari passu* with the general evacuation of the Forces through the four stages of Plan A, as recently approved by the Defence Committee and endorsed by the Cabinet. The latest review of the situation suggests that, provided conditions permit the planned orderly evacuation, it should be possible to withdraw the bulk of the stores required elsewhere. There will, however, be an additional quantity of some 150,000 tons of useful stores which would have been required had the Forces remained in Palestine. Immediate replacements will not be required elsewhere, and, since it is not possible to evacuate them, these stores will remain for local disposal by the Ministry of Supply. There is a considerable risk that we may lose even their disposal value. This is not a contingency which can be lightly accepted, and the Cabinet have agreed that special measures, including the appointment of an officer charged with this particular task, should be taken to facilitate first—

(*a*) the collection and evacuation of military stores from Palestine;
(*b*) the disposal of surplus stores in Palestine.

There are two developments in the Palestine evacuation, the possible effects of which upon the stores question Sir Alexander Cadogan should be asked to bear in mind in negotiation with the United Nations authorities. First, it seems possible—and the Commanders-in-Chief, Middle East, think it is probable—that a considerable quantity of stores will in any case have to be left behind at various stages of the planned evacuation of troops. It is proposed that plans should be discussed by Sir Alexander Cadogan with a view to the safe custody of such stores left behind by the military, and (*a*) to their movement to the Haifa enclave for subsequent evacuation, or (*b*) to their disposal, possibly an appreciable time after 1st August. Secondly, deterioration of conditions in Palestine as between the Jewish and Arab communities, the premature arrival of the United Nations Commission, or other factors, may enforce some telescoping of the military evacuation plan now approved in favour of a more rapid withdrawal upon the Haifa enclave. The Commanders-in-Chief, Middle East, foresee that any such contingency would probably mean a heavy additional abandonment of stores along the line of evacuation. In this event, too, it would be important that such provision as may be possible in the circumstances then existing should be made for (*a*) subsequent concentration and movement of the stores to be evacuated into the Haifa enclave, and their safe custody there pending shipment overseas; and (*b*) the subsequent disposal of the stores declared for disposal. If a hurried evacuation were forced upon us through the United Nations Commission insisting upon what we regard as a premature arrival in Palestine, then there would be a powerful argument for insistence upon all possible facilities being provided for the evacuation of military stores which thus had to be temporarily abandoned.

It is relevant also that the evacuation of military stores, on present plans, will be slowed down by the policy of His Majesty's Government and the Palestine Administration not to interfere with the citrus trade, which is so important to Palestine's economy; this consideration likewise affords ground for seeking some *quid pro quo* as regards facilities for subsequent evacuation of stores.

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APPENDIX B

Notes on Assets and Liabilities

1. *General Revenue Balances.*—These are estimated as likely to be of the order of £2 million at 31st March, 1948. This allows for some slight recession in revenue returns offset by savings in expenditure through inability to carry out the budgetary programme. This figure might well turn into a deficit if revenues slumped to an extreme degree. No forecast is possible as to the likely position of revenue balances at 15th May; given favourable conditions it may be possible to hold the position as at 31st March.

2. The funds for specific purposes include the following:—

(i) Palestine Provident Fund.
(ii) Palestine Widows' and Orphans' Pensions Fund.
(iii) Palestine Post Office Savings Bank.
(iv) Public Service (Supplementary Grants Board).
(v) Renewals Funds—Ports, Posts and Telegraphs, Water Supply, &c.

The foregoing, with the exception of (v), must be utilised to meet the obligations of the funds they relate to. In the case of (v) these funds (which amount to approximately £734,000) could be treated either as an asset of Government to be handed over or utilised for appropriate expenditure on the services for which they were created.

3. In addition to the sinking fund arrangements for the servicing of the 3 per cent. Guaranteed Stock (dealt with in paragraph 12, the sum of £3,048,707, being the unspent balance of the various issues of War Loans (Bearer Bonds) has been invested by the Crown Agents in the interests of the bondholders. A further £500,000, which had been earmarked for a specific purpose, is also being invested.

4. Government land and buildings are proposed to be dealt with under the Partition Plan by allocating immovable assets to the Government of the territory in which they are situated. This may well present difficulties in the case of the proposed Arab State; but in our financial negotiations we should hand them over to the United Nations Commission as a Palestine Government asset and the Commission would be responsible for their subsequent disposal.

5. *Internal Loans*, these consist in the main of loans to various municipalities, to Citrus growers, local councils, village communities and agricultural loans. The foregoing have been made from Palestine general revenues at interest on varying terms of repayment. In addition, loans have been made to Municipalities, Railways and Ports from the proceeds of the War Loans (Bearer Bonds). These loans are assets of the Palestine Government for disposal as may be agreed. At 31st March, 1946, the loans from revenue totalled £P.5,245,206 while from War Loans (Bearer Bonds) loans of £P.1,282,000 had been made.

6. *Trust funds* consist of Museum of Archæology Endowment Fund, Russian State Fund and Smith (B. C.) Trust Fund, which must be negotiated with the Commission in the light of the respective Trust deeds.

7. *Palestine 3 per cent. Defence Bonds and Palestine Savings Certificates* were inaugurated under a Palestine War Loan Ordinance of 1941 for the purpose of lending the proceeds to His Majesty's Government to meet war expenditure. These bonds and certificates were issued on prescribed terms of redemption; in the case of the 3 per cent. Defence Bonds, seven years from the date of purchase, and in the case of saving certificates the normal ten-year period. Earlier repayment may be possible if this concession would secure satisfactory arrangements as to the servicing of the 3 per cent. Guaranteed stock, relieving His Majesty's Government of her guarantee on being given satisfactory indemnification as dealt with in paragraph 40.

8. *Budgetary expenditure* may well not be possible on many projects owing to labour and material difficulties: but the result is reflected in the estimated General Revenue balance given.

9. *Obligations under Palestine Ordinances.*—There may well be a number of obligations under Palestine ordinances which may need to be given adequate cover. These, in the main, deal with requisitioned lands and compensation payments and will require to be negotiated. The legal aspect generally in connection

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with Palestine Ordinances is being dealt with by the Colonial Office and it is mentioned here because certain financial obligations may arise for negotiation.

10. *Contingent liabilities.*—It is difficult at this stage to envisage what may be contingent liabilities; but there may well be items of stores and supplies which may not be brought to account on the termination of the Mandate. Such claims must obviously fall to be met from Palestine assets.

APPENDIX C

A.—Palestine Potash

By a long-standing agreement with the Palestine Potash Company the whole output of potash is taken by His Majesty's Government on a cost-plus 12½ per cent. profit basis. This potash is used to meet in part the requirements of the United Kingdom, Dominions and Colonies, and the present arrangement continues the procedure approved by the International Emergency Food Council during the period when potash was subject to international allocation. Allocations of potash ceased on 30th June, 1947. The company, under a British and Palestinian Directorate, hold a concession for 75 years from 1934, granted by the High Commissioner on behalf of Palestine, and also by agreement with the King of Transjordan on behalf of that territory in which a part of the concession lies. Royalties are paid to Palestine and to Transjordan.

2. The potash from the concession area contains a high percentage of K_2O and this high-quality fertiliser is indispensable to the food production of the United Kingdom and the Empire. Potash of this quality to replace any shortfall on Palestine supplies cannot be obtained from other sources and it is essential to ensure that the existing supply arrangements, which are favourable to the company and to His Majesty's Government, should be continued after the surrender of the Mandate. His Majesty's Government have supplied capital equipment and granted a loan to the company and it is largely due to the support given, and the assured market provided by His Majesty's Government, that the company have been able to continue in operation and build up a sound position.

3. Royalties under the terms of the concessions are paid to the Palestine Government and to the Transjordan Government. It is assumed that the Palestine Government's share of the royalties will be paid to the Commission on the termination of the Mandate.

4. There is, in fact, likely to be interference with potash production, since, it is understood, that the works of the company are located partly in the Arab and partly in the Jewish proposed States.

B.—United Kingdom Imports of Food-stuffs from Palestine

1. These comprise the following estimated quantities for 1948:—

	Tons '000	£'000
(*a*) Citrus fruit 1947–48 crop ...	387	8,453
(*b*) Citrus fruit juices for soft drinks	2·1	376
(*c*) Concentrated orange juice (for Welfare Foods Scheme) ...	3·5	733
(*d*) Essential oils	165,000 (lb.)	100
(*e*) Wines (including sacramental wines)	...	207·5
		9,869·5

105,000 tons of the 1947–48 citrus fruit crop have been shipped, the balance remaining to be shipped up to April 1948.

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2. Imported citrus fruits and products from Palestine are a large source of United Kingdom supplies, amounting to not less than 75 per cent. of United Kingdom citrus fruit imports and to 50 per cent. of requirements for soft drinks and the welfare service.

3. Our citrus fruits are bought from individual shippers within the framework of an overall agreement with the Citrus Marketing Board. We should hope the Board would continue to function. If it did not, we should have to buy direct from the shippers. The season ends in April and begins again in the late autumn. The fruit juices are bought through London agents.

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Registry No.

Draft. Minute to the Prime Minister

From:-

The Secretary of State.

84 January

Financial and economic aspects

from the withdrawal from Pal

I understand that two

U.P.C. (48) 7 and 8 are being

the Economic Policy Committee

They contain a prospect

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PRIME MINISTER.

Financial and Economic Questions
Resulting from the Withdrawal from Palestine.

I understand that two papers, EPC (48) 7 and 8, are being taken by the Economic Policy Committee on Tuesday. They contain proposals to block Palestine's sterling balances and to remove Palestine from the Sterling Area. These proposals have political implications of great importance and strong adverse reactions are to be expected from the Jewish lobby in the United States of America. I therefore think it advisable that these questions should be discussed in Cabinet after they have been taken by the Economic Policy Committee.

24th January, 1948.

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E 1275 /Y/ 31/G

Cabinet Office
CP(48) 31

Dated 27 Jan

Financial and economic questions resulting from the withdrawal from Palestine

Last Paper.

E 1274

References.

(Print.)

(How disposed of.)

Dft) New York 22
2 Feb
9) W'ton 138
8) Mr Mathieson C.O
Mr Rowe Dutton Tsy
Mr Leckie B/T
Mr Mitchell MoF&P
Mr Feaveryear
M/Food
2 Feb

(Action completed.)	(Index.)
25 '48	

Next Paper.

(Minutes.)

We now have to communicate to Sir A. Cadogan and His Majesty's Ambassador at Washington, the recommendations contained in E.P.C. papers 7 & 8 of January 21st within, as approved by the Cabinet. The Treasury agree to our communicating the papers as they stand to Sir A. Cadogan and I attach a draft despatch, to go urgently by air bag.

Action in regard to the most important section of the Cabinet decisions i.e. the exclusion of Palestine from the sterling area and the blocking of her balances, is due to take place in little more than a week, on February 8th. Accordingly it will be necessary to telegraph immediately to Washington and New York, warning them of what is coming and instructing Lord Inverchapel to explain the matter at a high level in the State Department. There will also be a telegram in the Treasury series proposing the loan of Mr. Waite for a short period to advise Sir A. Cadogan on these matters (— this has now been sent)

I therefore attach:-

(1) a despatch to New York.

(2) two telegrams to Washington

~~(3) a telegram to New York about Mr. Waite.~~

NB. I have agreed these drafts with E.R. Dept. and copies have gone to the Tsy. for their concurrence by this morning.

J.G.S. Beith
30th January 1948.

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16 FE[illegible] 1948 E *Minutes.* PW 87

Blocking of Palestine sterling balances and exclusion of Palestine from the Sterling Area.

The Cabinet has decided that the State Department will have to be told at a high level in advance. The Secretary of State considered it to be of great importance that simultaneously an approach should be made by the Embassy to the State Department and by the Treasury Delegation to the U.S. Treasury both at a high level. The Cabinet minutes did not mention any particular date; but it is the strong view of the Foreign Office that the Americans should be told a week beforehand[X] and this was, I am sure, the Secretary of State's intention. In order to assist Eastern Department I drafted the telegram at Flag A below. This is not the final copy and I understand there have been a few minor amendments. The Treasury are at present insisting that the State Department should only be given 24 hours notice owing to the danger of a leak. Mr. Wright is very anxious that the telegram should be issued by lunch today at the latest. I shall let you know the developments. Flag B is Eastern Department's despatch which has also been held up until Treasury clear it.

H. Trevelyan.

2nd February, 1948.

(Mr. Rowe-Dutton).

Mr. Mathieson

[X] This is a fabricated fiction which we can learn to Eastern Dept & Mr Wright. We are only concerned with what they say, not when they say it.

2/2

Eastern Dept. are handing it; this was primarily for information.

2/2.

Treasury now want to put it off till 15th February, mainly because their arrangements are not necessary. F.O. have no objection from the U.S. end; but have pointed out that it will be necessary in any case to tell the P.M. at Trinidad this week

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Minutes.

before he leaves for home overland. The
prospects of a leak through him seem considerably
larger than the prospect of a leak through the
State Dept. Meanwhile are this stumbling.
The Chancellor has written to Sec. of State on
the 24 hours basis for notice to the State
Dept.

F Rumbold.
2/2/48.

Mr Mayhew.
R
3/2.

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Sir E. Hall-Patch.

Blocking of Palestine sterling and exclusion of Palestine from the Sterling Area.

The present position is as follows:

1. Cabinet decision was that the Washington Embassy should tell the State Department a week before action was taken. The Secretary of State had previously informed me that he wished a simultaneous approach to be made to the U.S. Treasury by the U.K. Treasury delegation in Washington. The Cabinet minutes did not mention the period which should elapse between telling the United States Government and the action.

2. The telegram at Flag A below was drafted by me on behalf of Eastern Department and has since been very slightly amended, though I have not got a copy of the final version. The despatch at flag B has been sent. The telegram at Flag A has not been sent off, as the Treasury have strong objection, on grounds of secrecy to informing the State Department more than 24 hours before action is taken.

3. For administrative convenience the Treasury have decided to put off action from February 6th to February 15th. Foreign Office have raised no objection and have agreed that Sir Alexander Cadogan is not likely to be embarrassed by this delay. They have pointed out, however, that it will be necessary to tell the Prime Minister of Transjordan before he leaves England at the end of this week. He will be returning to Transjordan slowly overland. One would have thought that the danger of a leak from the Prime Minister of Transjordan was considerably greater than the danger of a leak from Mr. Roy Henderson. Treasury apparently did not hold this view; as they have raised no comment and apparently intend to stick to their plan.

4. Eastern Department have now suggested that a revised telegram should go to the Washington Embassy informing them of the situation, asking them whether they think that serious reactions are to be expected in the U.S. and whether, in the light of their appreciation, they think it desirable to tell the State Department more than 24 hours before action.

5. Telling the State Department only 24 hours before is presenting them with a fait accompli and is not in fact consultation. This is the responsibility of Eastern Department and we may support their recommendation to obtain the Ambassador's opinion in the first instance. Owing to the postponement of the date, there is [redacted] time to do this.

H. Trevelyan.

4th February, 1948.

This/

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This question was discussed by the Secretary of State with the Chancellor of the Exchequer to-day in the presence of Sir Wilfrid Eady and myself.

The Chancellor maintained that the United States should only be informed of what we proposed to do twenty-four hours before the announcement. It was pointed out to him that this was very short notice and that the timing was very awkward. Trouble was expected in the discussions at the U.N.O. Commission in New York and unless the State Department were given some warning of what we proposed to do in the financial field it would be difficult for them to handle any difficulties which might arise.

The Secretary of State suggested that, as Mr. Creech Jones was going out to discuss Palestine at the U.N.O. Commission and in connexion with those discussions would have to see Mr. Marshall, he should take this opportunity of warning Mr. Marshall of what we had in mind about excluding Palestine from the sterling area. This should ensure secrecy. In subsequent discussion it was pointed out that Mr. Marshall would be unlikely to appreciate the implications of this question and would ask for advice from his officials. This was the point at which the danger of leakage would arise.

It was then suggested that if we warned Mr. L. Henderson in confidence of what was proposed just before Mr. Creech Jones spoke to Mr. Marshall it would be possible for Mr. Marshall to be fully informed on the subject when it was raised by Mr. Creech Jones.

It was left

(a) that a full brief would be prepared for Mr. Creech Jones, and

(b) that the Foreign Office would warn the Ambassador of what was afoot so that he could make arrangements after Mr. Creech Jones arrived in America, with Mr. Henderson, or otherwise, to ensure that Mr. Marshall was aware of the subject before Mr. Creech Jones spoke to him, and that the necessary secrecy was maintained.

I asked that the Foreign Office should be kept fully informed of developments and provided with any brief prepared for Mr. Creech Jones.

As regards the notification to Transjordan, the Secretary of State thought it advisable not to make any notification to

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the Transjordan Prime Minister here, but to send our man who is here back fully briefed so that Kirkbride could notify the King.

Would Mr. Trevelyan please keep in touch with Eastern Department and with the Treasury on this subject?

4th February, 1948.

Economic Relations Department. HP.

Eastern Department.

Eastern Dept. are handling this, and will no doubt accept responsibility for further action, keeping us informed.

Trevelyan
4/2/48.

See separate minute
HB Feb 5

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Monday

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Exclusion of Palestine from the Sterling Area and Blocking of Palestine Balances

Sir E. Hall-Patch's minute of February 4th records the result of a discussion between the Secretary of State and the Chancellor of the Exchequer regarding the advance notice to be given to the United States Government of our intentions in this matter. The decision was that the Colonial Secretary should inform Mr. Marshall personally and that H.M. Ambassador at Washington should be authorised to let the State Department know the subject of our communication shortly before the Colonial Secretary made it.

I have been in touch with the Colonial Secretary's private office in order to ensure that his travelling arrangements will be such as to allow him to make this communication in time. Action is due to be taken on the night of February 14/15th and the Colonial Secretary's present intention is to catch the "Aquitania" on Sunday, February 8th. This would get him to Halifax, all going well, on Friday, February 13th. At this time of year this cannot be relied on and, even if the ship arrived on time, arrangements would have to be made for a special 'plane to fly him from Halifax to Washington. Even with this very tight time-table the Colonial Secretary would only be able to deliver his communication a bare twenty-four hours before our action and probably not until Saturday, the 14th, which would be less than twenty-four hours.

The Colonial Secretary is, I am informed, very conscious that he has taken on the responsibility of making this communication and his Private Secretary proposes to get into touch with the Treasury and Foreign Office about co-ordinating Mr. Creech-Jones' travelling arrangements. It seems that, if the decision recorded in Sir E. Hall-Patch's minute is to be acted upon, the Colonial Secretary would have to fly during the course of next week instead of going by boat.

I would recommend this line to M

J.G.S. Beith

Sir E. Hall-Patch
Private Sec.

J.G.S. BEITH,
5th February, 1948.

If the Colonial Sec. will not fly we must take action through HM Ambassador. I presume that in such circumstances the Treasury could be induced to agree.

The draft T's to Washington follow

W.C

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will need amendment as soon as we know Mr C-Jones' plans.

B H B Burrows
5.2

MRHs
5.2.

If the S/S for the Colonies will not fly we should have to ask through the Embassy and I very much hope that the Secretary can be induced to agree to fly as long notice as possible of the visit does permit the proper arrangements are made for Ministerial meetings.

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Notification to the State Department of H.M.G.'s intention to exclude Palestine and Transjordan from the sterling area as from February 8th.

There will be found attached two draft telegrams to Washington prepared in accordance with a Cabinet decision of January 29th to the effect that the U.S. Government should be informed in confidence, in advance of any public announcement, of the decision to exclude Palestine and Transjordan from the sterling area. Copies of these drafts were sent to the Treasury for concurrence before the weekend but the latter have felt unable to agree to give as much as a week's notice to the U.S. Government. They are only prepared to give 24 hours' notice and the Chancellor has today written a letter to the Secretary of State in this sense. As things are now, we could only give about 4 days' notice in any case, since the action of exclusion takes effect from the night of February 7th-8th.

The F.O. originally suggested giving a week's notice on the assumption that the Cabinet decision meant that the State Department should be given the courtesy of adequate notice and not presented with a virtual fait accompli. On the other hand the Treasury take the line that there is such serious danger of leakage in the U.S. that we cannot afford the risk of adverse effects on the Palestine balances.

Much depends on the reliability of the State Department official to whom the communication is made. Mr. Wright's view is that we can trust Mr. Loy Henderson completely in such a matter. But there is always of course a remote possibility of a leak.

The F.O. have pressed for adequate advance notice because of the possibility that the U.S. Government would be seriously embarrassed by Jewish pressure as a result of our action. It was thought that we should give the Americans a chance to prepare themselves for such pressure, armed with our explanation of the necessity for this action. The minimum advance notice in such a case would be about 3 days. It is nevertheless questionable whether we can press our demands in this sense to the limit if the Treasury can show that such notice would involve the risk of serious financial loss to H.M.G.

This minute has been seen by E.R. Department.

H.S. Beith
(BEITH)
2nd February, 1948.

If this is going to be regarded by the State Dept as a major development of our policy three days notice should certainly be given. However

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it turns out that they have been expecting something like it. 24 hours would be enough. Perhaps we could tell Washington now & ~~ask~~ them to comment on the thing after on the State Dept. On receipt of this comment we could take the final decision.

Later. There is now a chance that the Treasury may wish to postpone action until Feb 15. This would give us longer to obtain the view of HM Embassy Washington.

[signature]

2/2.

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Exclusion of Palestine and Transjordan from the sterling area and the blocking of Palestine sterling balances.

I now submit telegrams to Washington, the U.K. Delegation, New York and Amman containing final instructions with regard to the prior notification of the U.S. and Transjordan Governments. These drafts have been agreed with the Treasury.

The postponement of action until 1 a.m. on 22nd February will enable the Colonial Secretary to make a personal communication in advance to Mr. Marshall as previously proposed. It should also enable Sir A. Kirkbride to give prior notice to the Transjordan Prime Minister, but as the latter is only due back at Amman on 19th February it will not leave much time to agree a statement. There is also of course the very real danger of leakage, now that action has been deferred yet another week. If a serious leakage did occur the Treasury would have to take immediate action and this is explained in these drafts.

(J.G.S. BEITH)

10th February, 1948.

L.F.L. Pyman
10/2 L.FL.PYMAN.

10/2

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Mr Burrows

I attach a tel. to Washington giving the final text of the Palestine - sterling area statement. Treasury and Co. have agreed to it and Mr Trevelyan has had a copy for Sir E. Ball-Patch.

The draft is a very slightly modified version of the original which will be found at flag D. We ought to get it off today so that Washington can get on with the necessary publicity arrangements.

J.S. Bunt
Feb. 20
(BEVIN)

- Tel. sent
JB. Feb 20

Fitzroy 20.2

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It is issued for the personal use of Mr Foreign Affairs (2)

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C.P.(48) 31

27TH JANUARY, 1948.

CABINET

FINANCIAL AND ECONOMIC QUESTIONS RESULTING FROM THE WITHDRAWAL FROM PALESTINE

Note by the Prime Minister

I circulate, for consideration by the Cabinet, two memoranda by the Chancellor of the Exchequer on the financial and economic questions resulting from the withdrawal from Palestine.

The recommendations made in these papers were endorsed by the Economic Policy Committee on 27th January.

C.R.A.

10, Downing Street, S.W.1.
27th January, 1948.

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Printed for the Cabinet. January 1948

SECRET

Copy No. 77

E.P.C. (48) 7

21*st January*, 1948

CABINET

Economic Policy Committee

FINANCIAL AND ECONOMIC QUESTIONS RESULTING FROM THE WITHDRAWAL FROM PALESTINE

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

I attach for the consideration of my colleagues the report of the Overseas Negotiations Committee on financial and economic questions arising out of the withdrawal of British authority from Palestine, for which the Cabinet asked at their meeting on 4th December (C.M. (47) 93rd Conclusions, Minute 1).

2. It will be observed from paragraph 4 of the report that the following three questions are dealt with in a separate memorandum which is being circulated as E.P.C. (48) 8 :—

(i) Should Palestine leave the sterling area?
(ii) Should Palestine sterling balances be blocked?
(iii) Should the Palestine Currency Board continue to operate?

3. The following is a statement of the recommendations for which approval is desired :—

A.—*Oil Interests* (paragraph 14)

It is recommended that Sir Alexander Cadogan should seek to establish with the United Nations Commission that :—

(*a*) All agreements between the Palestine Government and the Iraq Petroleum Company Limited and Consolidated Oil Refineries Limited, respectively, should be treated in accordance with Chapter 3, paragraph 3 (*d*), of the Plan of Partition with Economic Union, *i.e.*, that they shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State.

(*b*) The British oil companies in Palestine should be free to export petroleum products to such destinations as they choose.

It is further recommended that Sir A. Cadogan should be asked :—

(*c*) To give early warning of any hint that the Commission may be considering dollar-invoicing the products of the Consolidated Refineries Limited.

B.—*Assets and Liabilities* (paragraph 30)

It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure that :—

(*a*) A clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government.

(*b*) That the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government Departments, with freedom to dispose of such assets as they may deem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked :—

(*c*) To discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles :—

(*d*) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine

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Government (there is every indication that the liabilities will exceed the liquid assets).

(*e*) That notwithstanding clause 2 of Section E of Chapter 4 of U.N.S.C.O.P. Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and

(*f*) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3 per cent. Guaranteed Stock, and for payment of superannuation benefits.

C.—*German Assets* (paragraph 38)

It is recommended that a final decision on implementing the policy which would best serve His Majesty's Government's interests financially, described in (*a*), (*b*) and (*c*) of paragraph 37, should await the report of the Treasury representative now in Palestine, it being understood that so far as can be determined at present any alternative to the policies advocated in (*a*) and (*b*) must definitely result in serious loss to the Exchequer, some of which will be in terms of lower receipts of hard currency (Swiss francs from German assets in Switzerland).

D.—*Safeguards for Commercial Interests* (paragraph 44)

It is recommended that Sir A. Cadogan should be asked :—

(*a*) On the treatment of goods, to discuss the question with the Commission on the lines proposed in paragraph 41.

(*b*) On the treatment of nationals, companies and shipping, to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most-favoured-nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions customarily included in commercial treaties. Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

E.—*Exports from Palestine* (paragraph 46)

It is recommended that Sir A. Cadogan be asked to request the United Nations Commission to facilitate the exports of citrus and potash to the United Kingdom.

F.—*Procurement of Food-stuffs and Fertilisers* (paragraph 51)

It is recommended that Sir A. Cadogan be asked :—

(*a*) to inform the United Nations Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May, the latest date for the termination of the Mandate;

(*b*) to inform the United Nations Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently;

(*c*) If the United Nations Commission request us to continue *as agents* procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions, but to give no indication that we should be prepared to act as agents in this matter for any considerable period.

Treasury Chambers, S.W. 1.
21st January, 1948.

R. S. C.

NOTE.—During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other assets.

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O.N.(48) 5L

22*nd January*, 1948

CABINET

FINANCIAL AND ECONOMIC QUESTIONS ARISING FROM THE WITHDRAWAL OF BRITISH AUTHORITY FROM PALESTINE

REPORT OF THE OVERSEAS NEGOTIATIONS COMMITTEE

Introductory

THE Overseas Negotiations Committee were asked to prepare, for consideration by Ministers, a comprehensive paper on financial and economic questions arising out of the withdrawal of British authority from Palestine (C.M. (47) 93rd Conclusions, Minute 1).

2. This report has been prepared on the basis that as far as practicable it should be assumed that the United Nations plan will be put into effect. In fact, however, as far as can be foreseen, the Palestine Arabs supported by the Arab States will boycott the United Nations Commission and refuse to co-operate in the establishment of an economic union of Palestine administered by a joint economic board. Unless the Commission is furnished with a force by the United Nations for the maintenance of order, it seems likely that guerilla warfare and confusion will reign in the areas evacuated by British troops. The confusion may well be increased by the migration of Jews and Arabs from areas where they are in a minority. The Jews will probably have to defend themselves within an enclave limited by military requirements; the remaining part of Palestine will be in Arab hands but is unlikely to be constituted as an Arab State since this would represent acquiescence in the partition plan. Where, therefore, any breakdown of the United Nations Plan would vitally affect our financial and economic interest in Palestine the relevant portion of the report will point this out and the recommendations will take account of it.

3. Very broadly the United Nations Plan provides: (*a*) that the mandatory Powers shall hand the administration of Palestine over to a Commission appointed by the United Nations which shall establish Arab and Jewish States and an international State in the City of Jerusalem; (*b*) that these States shall be united in an economic union of Palestine among whose principal objectives will be a Customs Union and a Joint Currency system providing for a single foreign exchange rate; (*c*) that there shall be established a Joint Economic Board, whose functions will be to implement either directly or by delegation the measures necessary to realise the objectives of the Economic Union. Until the Joint Economic Board is functioning (if indeed it ever does) the United Nations Commission will have full responsibility for financial and economic administration.

4. A separate submission is being made by the Treasury, proposing that—

(*a*) Palestine should leave the Sterling Area;
(*b*) Palestine's sterling balances should be blocked; and
(*c*) the Palestine Currency Board should continue to operate for the present.

The rest of this paper has been prepared on the assumption that these proposals are approved. (If Palestine's sterling balances are to be blocked. it will be necessary for the Committee to consider the level of the releases to be made.)

Oil Interests

5. Palestine is highly important to the British oil position, since oil produced in Iraq by the Iraq Petroleum Company is piped by them across Palestine to the Company's tank farm near Haifa, from which they feed crude oil to the

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Consolidated Refineries Limited. Approximately 2 million tons per annum of crude oil are now derived from this pipeline and 1 million tons each are shipped on British Companies' account from Tripoli and the Persian Gulf. It is hoped that the refining capacity at Haifa will be increased to produce from 7–9 million tons per annum by 1951, using the increased quantities of crude oil which should flow through the new pipeline now under construction.

6. The crude oil produced by the Iraq Petroleum Company is owned as to $47\frac{1}{2}$ per cent. by British interests, as to $23\frac{3}{4}$ per cent. by United States interests, as to $23\frac{3}{4}$ per cent. by French interests, and as to 5 per cent. by a Mr. Gulbenkian. The Consolidated Refineries Limited are 100 per cent. British-owned.

7. The Iraq Petroleum Company and Consolidated Refineries Limited operate in Palestine under agreements with the Palestine Government due to expire in January 2001 and October 2003, respectively. In the United Nations Plan of Partition with Economic Union, Chapter 3, paragraph 3 (*d*) stated "Commercial concessions granted in respect of any part of Palestine before such adoption of the resolution by the General Assembly shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State." The operation of the two companies should be protected by this article. The Iraq Petroleum Company have, however, a number of other agreements with the Palestine Government and Municipalities involving such considerations as mining rights, water projects, occupation of land, &c., which they would also wish to have safeguarded.

8. Because of the shortage of refining capacity throughout the sterling area and the rest of the world, the loss of the refinery at Haifa, or any attempt by the local government to restrict or direct export of petroleum products, or to interfere with imports of machinery, raw materials and crude products, essential both for normal requirements and maintenance of the refinery and pipelines and for expansion schemes, would have a most serious effect on the oil situation in the sterling area. Palestine and other neighbouring States draw their requirements of petroleum products from the refinery at Haifa and interference with the production or the products would, therefore, also have serious repercussion on those States. It would also seem to be against the interests of a Jewish successor Government in Palestine to take any action which would close Haifa refinery or restrict its activities, since this would lose for them an important source of revenue. Current annual expenditure by the British Oil Companies on loading dues, taxes, rents, wages, purchase of local materials and capital costs is estimated at about £5·25 million, and will be considerably higher when the expansion schemes have been completed and are operating.

9. At the moment the Refinery Company never owns the oil that it processes. It is remunerated on a fee basis and, as its sole shareholders are Companies that distribute the refined product, this fee may be less than would be charged by an outside concern. There is a possibility that the successor Government will be attracted by the opportunity of earning hard currency or gold presented by the existence of the refinery on its territory. Assuming that it respects the terms of the convention signed by the Mandatory Government in 1933, it cannot secure an appreciable return from the Company by way of taxation or port dues certainly until 1958 and probably not before the beginning of next century.

10. The successor Government may, however, attempt to secure an exchange profit either by—

(*a*) insisting that the Refinery Company increases its processing fee to the full "economic" level and receives some part of the fee in gold or hard currency, or

(*b*) more likely—laying down that all oil refined in Palestine must be sold for dollars.

Whether the successor Government will really give way to this temptation is unknown. If it did and succeeded the result would be extremely serious. The production of the Haifa refinery will increase during the next few years. If the oil companies have their way the British share alone will be $7\frac{1}{2}$ million tons in 1950 and the difference in cost between the crude oil intake (for which presumably we would charge Palestine dollars in the circumstances envisaged) and refined oil output is of the order of £20 million at present prices.

11. Alternative 10 (*a*) therefore would mean our paying a fair proportion of this amount in gold; alternative 10 (*b*) would mean paying in dollars for that proportion of the Haifa output that was consumed in the sterling area.

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12. On the other hand, we are not without weapons with which to oppose such an attempt by the successor Government, *e.g.*, (*a*) we could refuse to proceed with the expansion of the refinery and the pipeline across Palestine which this involves, (*b*) refineries wear out pretty quickly and we could in the last resort (and at considerable expense to ourselves) transfer the refinery elsewhere, (*c*) dollar-invoicing is a game at which two can play and Palestine must take an appreciable part of her imports from the sterling area

13. For the moment it is difficult to see what can be done to ward off the prospect of the successor Government adopting such tactics. We certainly do not want to delay the expansion of Haifa longer than we are already likely to be forced to delay it by shortages of plant and material. On the other hand if, during the discussions, there is any hint that we are going to be faced with this sort of demand, His Majesty's Government should have early warning in order to reconsider the policy in regard to the refinery.

13A. It should be mentioned that the Iraq Government have expressed anxiety about the future of the Haifa refineries in view of their interest in the exports of Iraqi oil through that port.

13B. The effect of the establishment of a Jewish State on the existing and projected pipelines also requires careful examination. Arab States may well make difficulties over way-leaves of pipelines whose terminals are to be in the Jewish State. American pipeline construction may be difficult in Arab countries for some time to come.

Recommendations

14. It is recommended that Sir Alexander Cadogan should seek to establish with the United Nations Commission—

(*a*) that all agreements between the Palestine Government and the Iraq Petroleum Company Limited and Consolidated Oil Refineries Limited respectively should be treated in accordance with Chapter 3, paragraph 3 (*d*), of the Plan of Partition with Economic Union, *i.e.*, that they shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State;

(*b*) that the British oil companies in Palestine should be free to export petroleum products to such destinations as they choose.

It is further recommended that Sir A. Cadogan should be asked—

(*c*) to give early warning of any hint that the Commission may be considering dollar-invoicing the products of the Consolidated Refineries Limited.

Assets and Liabilities

Fixed Assets in Palestine of His Majesty's Government

15. Details of the value of the fixed assets constructed by the Service Departments in Palestine have been requested from the Middle East but this information has not yet been received. It is believed that the bulk of the assets are sited on requisitioned, hired and expropriated land. Many of these assets are of military value only but others would have considerable civilian-use value. The Service Departments are endeavouring to sell the assets which have been constructed on freehold land, but sales of assets of major political significance will only be made with the concurrence of the Palestine Government.

16. In the absence of the report referred to, only very tentative estimates of the value of the assets can be made, but the salvage value of assets constructed on hired, requisitioned or expropriated land is believed to be of the order of £2 million and the value to a willing purchaser would probably be substantially higher.

17. It is the view of the Palestine Government that if titles remain in their present form, *i.e.*, vested in the High Commissioner, there might be a difficulty in asserting the rights of the Service Departments of His Majesty's Government in this land after the termination of the Mandate when the office of the High Commissioner will presumably cease to exist. This land was vested originally in the High Commissioner on behalf of the Service Departments concerned, presumably to avoid any question arising of challenge under Article 5 of the Mandate, but it seems clear that the provisions of this article were not

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intended to preclude ordinary acquisition of private rights to land, *cf.* leases granted to foreign consulates and the British Army in Palestine.

18. It is the conclusion of the High Commissioner that the safest and most effective means of protecting the interests of His Majesty's Government in this land is to vest it directly in the Service Department concerned, either by a special ordinance or otherwise, and he has so informed the Military Authorities concerned in Palestine. It is their policy to endeavour to sell off all immovable assets with the least possible delay but, both because this may mean considerable loss and because in the time and with the staff available it may not prove possible to dispose of all property, some such method of protecting His Majesty's Government's interests appears necessary.

Movable Assets

19. The only known movable assets of His Majesty's Government remaining in Palestine after the termination of the Mandate will be military stores. A detailed note on these is given in Appendix B.

Liabilities of the Palestine Government

20. The appointment of a United Nations Commission as an administering authority for the whole of Palestine to take over the administration of the country following the termination of the Mandate involves the question of the negotiations to be carried out for the surrender of the assets of the Palestine Government and the terms upon which such a surrender should be made. In such negotiations it is essential that clear distinction is drawn between the assets of the Palestine Government and the assets of His Majesty's Government.

21. The Commission will, no doubt, be guided by the financial clauses of the Plan of Partition with Economic Union and these present some difficulties as to the definition of the obligations of the Palestine Government, the means which would be available to honour the obligations taken over by the Commission and the handling and distribution of governmental movable and immovable assets.

22. The assets of the Palestine Government might be summarised as follows :—

(i) General revenue balances.
(ii) Funds for specific purposes.
(iii) Funds in respect of Public Debt.
(iv) Government lands, buildings and stores.
(v) Internal loans.
(vi) Trust funds.
(vii) Palestine 3 per cent. Defence Bonds and Palestine Savings Certificates.

23. The liabilities of the Palestine Government might be summarised as follows :—

(i) Budgetary expenditure until termination of the Mandate.
(ii) Public Debt.
(iii) Specific obligations in respect of the right of public servants, including pensions, compensations or gratuities.
(iv) Specific obligations under Palestine Ordinances.
(v) Contingent liabilities.

24. These assets and liabilities are individually dealt with in Appendix B, except for the special problems arising on the Public Debt of Palestine and on Pension obligations, which are explained in the following paragraphs.

25. *The Public Debt of Palestine* consists of :—

(i) £P.3,600,000—3 per cent. Guaranteed Loan, 1962–67;
(ii) War Loan (Bearer Bonds), 1st, 2nd, 3rd and 4th issues, totalling £5,791,960.

The 3 per cent. Guaranteed Loan, less stock redemptions, at 31st March, 1947, stood at £P.3,150,000. This stock is guaranteed as to principal and interest by the Treasury under an Act of Parliament of the United Kingdom of Great Britain and Northern Ireland entitled "The Finance Act, 1939" (24 and 25 George V, cap. 32).

26. The operation of the Joint Economic Board to be set up under the Partition Plan makes provision for the service of the outstanding public debt of the

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Palestine Government. An agreement with the United Nations Commission safeguarding the servicing of the 3 per cent. Guaranteed Stock and War Loans (Bearer Bonds) should be a major objective of our financial negotiations.

Pension Obligations

27. Palestine Government have pension obligations under Palestine Ordinances as well as obligations in connection with the Palestine Provident Fund, Widows' and Orphans' Pensions Fund. In addition, the Palestine Government have not yet finalised their views as to the payment of compensation and gratuities to public servants and to the police on termination of the Mandate. Preliminary views of the Government of Palestine have indicated that their proposals may involve a sum of £P.18 million on the basis of " funding " pensions. However, it may be possible to arrive at some more economical method of meeting the charge. The position of expatriate officers of the Palestine Civil Service will need careful consideration. In the main it is hoped that the majority will be found other employment in the Colonial Service but there may be a small residue who cannot be so placed for some while after the termination of the Mandate.

Qualifications on Acceptance of Financial Obligation

28. 3 (*a*) of Chapter 3 of the Report of the United Nations *Ad Hoc* Committee on the Palestinian Question imposes a qualification as to the financial obligations which the State shall respect and fulfil. While saying that all financial obligations of whatever nature assumed on behalf of Palestine by the Mandatory Power during the exercise of the Mandate shall be respected and fulfilled, there is the important overriding condition that such obligations would be those recognised by the State. The United Kingdom delegation has reserved His Majesty's Government's position regarding any clauses in the Plan, and we must resist this qualifying condition to the extent of making the unqualified acceptance of the obligations of the Palestine Government a condition for the surrender of its assets.

Means of Meeting Obligation

29. Then there is the question of the means which the Commission will employ to meet certain charges arising out of the obligations taken over. As to the servicing of the public debt and the cost of superannuation benefits now being paid or falling due in future, the Partition Plan envisages these charges as being met from the common revenue of the Joint Economic Board. This presupposes that this Board will be set up and function satisfactorily; but this would appear to be a doubtful proposition in present circumstances. Should there be difficulties in setting up (*a*) the respective States, which seems probable in the case of the Arab State, and (*b*) the Economic Union, the Commission may not be in a position to implement its agreement to discharge the liabilities taken over unless there are safeguards against such a contingency.

Recommendations

30. It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure—

(*a*) that a clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government,

(*b*) that the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government departments with freedom to dispose of such assets as may seem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked—

(*c*) to discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles :—

(*d*) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine Government (there is every indication that the liabilities will exceed the liquid assets).

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(*e*) That notwithstanding clause 2 of Section E of Chapter 4 of the U.N.S.C.O.P. Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and

(*f*) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3 per cent. Guaranteed Stock, and for payment of superannuation benefits.

German External Assets in Palestine

31. *The General Background.*—By the decision of the Berlin Conference of July–August, 1945, it was decided that, "the reparation claims of the United States, the United Kingdom and other countries to reparations shall be met . . . . and from appropriate German external assets." By the provisions of Article 6 of Part I of the Final Act of the Paris Conference on Reparation, "each signatory Government shall, under such procedures as it may choose, hold or dispose of German assets within its jurisdiction *in manners designed to preclude their return to German ownership or control and shall charge against its German reparation share such assets.*" Article 2 of Part IV of the Final Act states that "the signature of each contracting Government shall be deemed to mean that the effect of the present Agreement extends . . . . to territories under its protection or suzerainty or over which it at present exercises a mandate." Under Article IF of the Final Act of the Paris Conference on Reparation, the Inter-Allied Reparation Agency must charge the reparation account of each Signatory Government for the German assets within that Government's jurisdiction, and each Signatory Government is required to render a return of the value of such assets as defined under Article 6 of Part I of the Agreement. His Majesty's Government signed the Paris Agreement on the 21st December, 1945, when it exercised a mandate over Palestine. Under the Final Act of Paris the share to be allocated to the United Kingdom (including all areas under its jurisdiction) of the *total* of German external assets, known as Category A. which are found to be available, is 28 per cent. This means in effect that the United Kingdom is entitled to 28 per cent. of the *total* of all German assets in all the eighteen countries signatory to the Final Act of Paris, which includes the United Kingdom, plus any other external assets, *e.g.*, those made available in Neutral Countries.

32. The position of German assets in Palestine under the international arrangements described above, and His Majesty's Government's responsibility in regard thereto, is thus :—

(1) While these assets are within His Majesty's jurisdiction—

(i) His Majesty's Government is required to see that German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control;

(ii) His Majesty's Government must ensure that, while these assets remain under her jurisdiction, as at present, the value of them is included in the United Kingdom returns to the Inter-Allied Reparation Agency;

(iii) the Inter-Allied Reparation Agency is required to charge His Majesty's Government's share with the *value* of these German assets in Palestine;

(iv) it is possible that His Majesty's Government may escape responsibility for accounting for such German assets in Palestine as remain *unliquidated* when Palestine ceases to be within His Majesty's jurisdiction, if it can be shown that circumstances have rendered His Majesty's Government impotent in respect of these assets;

(v) all assets in liquid form at the time when Palestine ceased to come within United Kingdom jurisdiction would be accountable to I.A.R.A. by United Kingdom whether transferred or not.

NOTE.—During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other asset.

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(2) All accountable German assets in Palestine are included by the Inter-Allied Reparation Agency in determining the total of Category A assets for reparation purposes, and all German assets in Palestine as defined for I.A.R.A. purposes are reparations.

German External Assets under the Control of the Custodian of Enemy Property for Palestine

33. The total estimated value of these assets is £8·8 million, and there are additional assets of perhaps twice this value belonging to Germans interned in Palestine and in Australia, and other Germans resident in Germany. These latter assets, or the proceeds of their sale, may be released to such of the owners who may not be within the legal (Custodian) definition of "enemy." Such released assets would not be accountable to the Inter-Allied Reparation Agency. After adjustments made under I.A.R.A. accounting rules for external assets the final sum hitherto considered as likely to be included ultimately in Category A in respect of German enemy assets in Palestine is £4 million. The amount of this at present in liquid form is probably less than £1 million.

Steps taken by His Majesty's Government to secure control and transfer of German enemy assets in Palestine

34. The High Commissioner for Palestine has been asked to instruct the Custodian of Enemy Property for Palestine not to vest further any German property which may have to be released (*e.g.*, internees' property). He has also been asked to consider measures whereby as much of the immovable property as possible can be liquidated. The High Commissioner has also been asked to advise on the possibility of transfer to the United Kingdom of all liquid assets now available and which become available as the proceeds of sale of assets. Arrangements have been made for an immediate visit to Palestine by a Treasury representative to investigate the position on the spot and see what steps it would be practicable and wise to take in the direction of liquidation of assets and transfer of the proceeds.

Possible Financial Effects

35. In the first estimate of German assets within the United Kingdom jurisdiction which has been made to the Inter-Allied Reparation Agency, the sum of approximately £2 million has been included on account of these assets. The provisions of the Paris Act enable us to adjust this estimate later according to the facts. The fact that we are obliged to account for assets, the value of which we know for certain, *e.g.*, because they have been liquidated, but are unable in fact to secure the transfer to the United Kingdom Exchequer, would mean that our participation in other assets under Category A of Part I of the Final Act, would be reduced. One effect of this might be to reduce our share of Swiss francs derived from the disposal of German assets in Switzerland. This reduction would not be the equivalent of the value of German assets in Palestine which we had included in the I.A.R.A. return, but would definitely reduce our share to an extent which at the moment cannot be forecast.

Jewish Claims for reparation payments

36. The Jewish Agency have hitherto claimed that, as compensation for the sufferings of Jewry under the Nazis, Palestinian Jews should receive compensation out of reparation payments over and above that already provided for in the Final Act. This provision (Article 8, Part I) allocates $25 million from German assets in neutral countries, and non-monetary gold in Germany and other assets in Germany, making an overall total of approximately $30 million. Jewish propaganda will no doubt claim that morally the whole of German assets in Palestine should be earmarked for this purpose. The Jewish Agency has already been informed that contributions from reparations for the rehabilitation of non-repatriable victims of German action are governed by the Final Act of Paris. Any contribution to Palestine over and above the agreed Palestine share of reparation can only be made at the expense of His Majesty's Goverment, whose responsibility it is to account for all these assets, the non-receipt of which would adversely affect the reparations receipts of the United Kingdom Exchequer. As these assets are reparations the Inter-Allied Reparation Agency has a responsibility to see that they are included in the total pool of Category A assets.

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Conclusions

37. His Majesty's Government's interests would best be served financially if :—

(*a*) All liquid assets were transferred out of Palestine and within the jurisdiction of the United Kingdom, before the mandate was relinquished.

(*b*) As much property as possible was henceforth liquidated before the mandate ended (provided that it is transferred as in (*a*) above).

(*c*) In the arrangements to be made with the United Nations Commission, we secured the inclusion of a statement describing the international responsibilities as regards German assets in Palestine which remain unliquidated, and therefore not transferred as in (*a*) and (*b*) above, and also secured from the United Nations Commission a recognition of these responsibilities which, so far as it was able, the Commission would accept as dischargeable to the Inter-Allied Reparation Agency through His Majesty's Government. (A primary responsibility is that these assets are so held or disposed of as "to preclude their return to German ownership or control"—Article 6A, Part I of the Final Act of Paris.)

It is clearly recognised that to take the lines described in (*a*) and (*b*) may, even with the most skilful presentation of the facts as to the position of these assets, and their setting within the field of international reparations relations, be the occasion for bitter accusations that we are robbing the Palestinians of German assets which belong to them. This is a matter which lies very close to the hearts of Jewish refugees from Germany in Palestine. There are several good answers which, in a reasonable atmosphere, should completely rebut such accusations, viz. :—

(1) Provision has already been made out of reparation assets for suffering Jewry. The provision in the Final Act (Article 8) is relatively generous. It amounts to about $30 million which is equal to above 5 per cent. of all Category A assets or to the combined shares of Norway and the Netherlands.

(2) These assets should form part of the whole pool of German external assets and would be applied by the United Kingdom to meet the claims of all the colonies, some of whom were more hardly hit than Palestine, *e.g.*, Malta.

(3) Palestine, under the arrangements contemplated for dealing with the German assets under United Kingdom jurisdiction, will receive her just proportion of the United Kingdom's share of 28 per cent.

38. A decision upon action designed to accomplish (*a*) and (*b*), and as to (*c*), turns very largely on what is found, particularly as regards (*a*), in Palestine by the Treasury representative to be practicable, and, so far as can be judged from the Palestine end, least likely to plunge the whole question into a hopeless atmosphere of unreason and prejudice.

It is recommended that a final decision on implementing the policy which would best serve His Majesty's Government's interests financially, described in (*a*), (*b*) and (*c*) of paragraph 37, should await the report of the Treasury representative now in Palestine, it being understood that so far as can be determined at present any alternative to the policies advocated in (*a*) and (*b*) must definitely result in serious loss to the Exchequer some of which will be in terms of lower receipts of hard currency (Swiss francs from German assets in Switzerland).

Palestine's Membership of International Economic and Financial Bodies

39. The Official Committee on Palestine are reviewing and making recommendations on all international obligations (including, *e.g.*, membership of international, economic and financial bodies) assumed by the United Kingdom on Palestine's behalf.

Safeguards for Commercial Interests

40. We need to safeguard our commercial position in Palestine in the interim period between the laying down of the Mandate and the negotiation of long-term agreements with the successor States. Our object should be to negotiate an arrangement with the Commission which will safeguard our position, not only while the Commission is actually administering the territory, but for an interval thereafter sufficient to give us time to negotiate commercial treaties with the successor States. It follows that we shall have to try to persuade the Commission to place some restraints on the economic freedom of the new States for the first year or two of their existence.

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Treatment of Goods

41. The protocol of provisional application of the General Agreement on tariffs and trade does not extend to Palestine until notice has been given in accordance with paragraph 2 of that protocol. It is undoubtedly in our interests that Palestine should apply the rules of the agreement on tariffs and trade. It is for consideration whether His Majesty's Government should, while they are still responsible for the administration of Palestine, give notice in accordance with paragraph 2 of the protocol to extend the application of the General Agreement on tariffs and trade to Palestine. The Palestine Government are being consulted on this point, but, subject to their views, it is proposed that we should give notice of the provisional application. If this proposal is approved, Sir Alexander Cadogan should presumably first inform the Commission that this is what His Majesty's Government propose to do, since Palestine will obtain the tariff concessions negotiated at Geneva only if she in her turn makes her concessions effective, and seeks the agreement of the Commission to the adoption of this course, and to their carrying forward the application when they take over. The Commission should also be asked to ensure that in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years should be obtained from them.

42. We can support our request by reference to the fact that, under the terms of the Mandate, Palestine was bound to grant equality of treatment to the goods, nationals, &c., of all members of the League of Nations (and by a separate agreement to the United States) and that this had to be given even if one of the countries concerned discriminated against Palestine. The line our representative should therefore take with the Commission is that Palestine has always followed a policy of non-discrimination in commercial matters and it is hoped that the policy will be continued under the Commission's régime, and further, that for the first two years of their existence the successor States shall be under an obligation to grant most-favoured-nation treatment to all members of the United Nations that accord the same to them.

The above general rule of non-discrimination would not be applied in such a way as to prevent Palestine making special customs agreements with neighbouring territories, *cf.* the existing preferential tariff arrangements with Syria and Lebanon.

Treatment of Nationals, Companies, Shipping and Civil Aviation

43. When the Mandate is terminated we shall have no treaty rights in Palestine for our nationals, their businesses or our shipping and civil aviation. In the long term these can only satisfactorily be safeguarded by the negotiation of a treaty of establishment and navigation with the successor States. It will not be practicable to negotiate detailed provisions with the U.N.O. Commission, and to cover the position in the interim period we shall have to rely on a *modus vivendi* expressed in fairly general terms.

Recommendations

44. It is recommended that Sir A. Cadogan should be asked—

(*a*) on the treatment of goods, to discuss the question with the Commission on the lines proposed in paragraph 41;

(*b*) on the treatment of nationals, companies and shipping, to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most-favoured-nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions customarily included in commercial treaties. Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

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Exports from Palestine which are Essential to the United Kingdom

45. The main exports from Palestine of interest to the United Kingdom (other than petroleum products covered in paragraphs 5–14) are :—

(*a*) Potash;
(*b*) Food-stuffs, mainly citrus fruit and fruit products.

Separate notes on these are in Appendix C.

Recommendations

46. It is recommended that Sir A. Cadogan be asked to request the United Nations Commission to facilitate the exports of citrus and potash to the United Kingdom.

Procurement of Food-stuffs and Fertilisers

Food-stuffs

47. The Ministry of Food has hitherto dealt with the programming, sponsoring and procurement of food supplies for Palestine.

48. Requirements of bread grains and rice for part of 1948 have already been considered by the I.E.F.C. The Food Mission in Washington have been asked within the last week to submit to the I.E.F.C. requirements of oils and fats for Palestine, as part of general Middle East requirements.

49. Certain quantities of the allocated foods for 1948 have been or are in course of being procured. Some small balances of Palestinian 1947 requirements yet remain to be shipped.

Fertilisers

50. The United Kingdom sponsors the requirements of the Colonies and Mandated Territories with the International Emergency Food Council in Washington. The only fertiliser now under international allocation by that body is nitrogen and the allocation of this fertiliser to Palestine for the fertiliser season ending 30th June, 1948, is 2,667 metric tons of N. Of this total, the United Kingdom is to supply 1,267 tons, Belgium 1,100 tons and Norway 300 tons. United Kingdom deliveries are made through I.C.I. (Levant), but procurement of supplies within the Belgian and Norwegian allocations is made by the Palestine Government, with such guidance as may be required from His Majesty's Government. It has been the practice in the past for the Palestine Government to use the I.C.I. (Levant) for procuring all supplies of nitrogen, but recently Norway has appeared to be unwilling to continue this arrangement.

Recommendations

51. It is recommended that Sir A. Cadogan be asked—

(*a*) to inform the United Nations Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May, the latest date for the termination of the Mandate;
(*b*) to inform the United Nations Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently;
(*c*) if the United Nations Commission request us to continue *as agents* procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions, but to give no indication that we should be prepared to act as agents in this matter for any considerable period.

52. Approval is sought for the following recommendations :—

(*a*) Oil interests (paragraph 14).
(*b*) Assets and liabilities (paragraph 30).
(*c*) German assets (paragraph 38).
(*d*) Safeguards for commercial interests (paragraph 44).
(*e*) Exports from Palestine (paragraph 46).
(*f*) Procurement of food-stuffs and fertilisers (paragraph 51).

22*nd January*, 1948.

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APPENDIX A

Stores in Palestine

There are large quantities of military stores (Naval, Army and Air Force) in Palestine. A considerable proportion of these stores constitutes part of the approved maintenance and reserve stores for the Middle East garrisons and the Army generally, and with the existing and prospective stringency of financial provision for the Services the necessary replacement of such stores, if they had to be abandoned in Palestine, would be extremely difficult. It is essential that every effort should be made to withdraw all military stores, which we desire to retain, from Palestine as part of the general evacuation of that country by the Forces.

The evacuation of military stores from Palestine has already begun and is to proceed *pari passu* with the general evacuation of the Forces through the four stages of Plan A, as recently approved by the Defence Committee and endorsed by the Cabinet. The latest review of the situation suggests that, provided conditions permit the planned orderly evacuation, it should be possible to withdraw the bulk of the stores required elsewhere. There will, however, be an additional quantity of some 150,000 tons of useful stores which would have been required had the Forces remained in Palestine. Immediate replacements will not be required elsewhere, and, since it is not possible to evacuate them, these stores will remain for local disposal by the Ministry of Supply. There is a considerable risk that we may lose even their disposal value. This is not a contingency which can be lightly accepted, and the Cabinet have agreed that special measures, including the appointment of an officer charged with this particular task, should be taken to facilitate first—

(*a*) the collection and evacuation of military stores from Palestine;
(*b*) the disposal of surplus stores in Palestine.

There are two developments in the Palestine evacuation, the possible effects of which upon the stores question Sir Alexander Cadogan should be asked to bear in mind in negotiation with the United Nations authorities. First, it seems possible—and the Commanders-in-Chief, Middle East, think it is probable—that a considerable quantity of stores will in any case have to be left behind at various stages of the planned evacuation of troops. It is proposed that plans should be discussed by Sir Alexander Cadogan with a view to the safe custody of such stores left behind by the military, and (*a*) to their movement to the Haifa enclave for subsequent evacuation, or (*b*) to their disposal, possibly an appreciable time after 1st August. Secondly, deterioration of conditions in Palestine as between the Jewish and Arab communities, the premature arrival of the United Nations Commission, or other factors, may enforce some telescoping of the military evacuation plan now approved in favour of a more rapid withdrawal upon the Haifa enclave. The Commanders-in-Chief, Middle East, foresee that any such contingency would probably mean a heavy additional abandonment of stores along the line of evacuation. In this event, too, it would be important that such provision as may be possible in the circumstances then existing should be made for (*a*) subsequent concentration and movement of the stores to be evacuated into the Haifa enclave, and their safe custody there pending shipment overseas; and (*b*) the subsequent disposal of the stores declared for disposal. If a hurried evacuation were forced upon us through the United Nations Commission insisting upon what we regard as a premature arrival in Palestine, then there would be a powerful argument for insistence upon all possible facilities being provided for the evacuation of military stores which thus had to be temporarily abandoned.

It is relevant also that the evacuation of military stores, on present plans, will be slowed down by the policy of His Majesty's Government and the Palestine Administration not to interfere with the citrus trade, which is so important to Palestine's economy; this consideration likewise affords ground for seeking some *quid pro quo* as regards facilities for subsequent evacuation of stores.

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APPENDIX B

Notes on Assets and Liabilities

1. *General Revenue Balances.*—These are estimated as likely to be of the order of £2 million at 31st March, 1948. This allows for some slight recession in revenue returns offset by savings in expenditure through inability to carry out the budgetary programme. This figure might well turn into a deficit if revenues slumped to an extreme degree. No forecast is possible as to the likely position of revenue balances at 15th May; given favourable conditions it may be possible to hold the position as at 31st March.

2. The funds for specific purposes include the following:—

(i) Palestine Provident Fund.
(ii) Palestine Widows' and Orphans' Pensions Fund.
(iii) Palestine Post Office Savings Bank.
(iv) Public Service (Supplementary Grants Board).
(v) Renewals Funds—Ports, Posts and Telegraphs, Water Supply, &c.

The foregoing, with the exception of (v), must be utilised to meet the obligations of the funds they relate to. In the case of (v) these funds (which amount to approximately £734,000) could be treated either as an asset of Government to be handed over or utilised for appropriate expenditure on the services for which they were created.

3. In addition to the sinking fund arrangements for the servicing of the 3 per cent. Guaranteed Stock (dealt with in paragraph 12, the sum of £3,048,707, being the unspent balance of the various issues of War Loans (Bearer Bonds) has been invested by the Crown Agents in the interests of the bondholders. A further £500,000, which had been earmarked for a specific purpose, is also being invested.

4. Government land and buildings are proposed to be dealt with under the Partition Plan by allocating immovable assets to the Government of the territory in which they are situated. This may well present difficulties in the case of the proposed Arab State; but in our financial negotiations we should hand them over to the United Nations Commission as a Palestine Government asset and the Commission would be responsible for their subsequent disposal.

5. *Internal Loans*, these consist in the main of loans to various municipalities, to Citrus growers, local councils, village communities and agricultural loans. The foregoing have been made from Palestine general revenues at interest on varying terms of repayment. In addition, loans have been made to Municipalities, Railways and Ports from the proceeds of the War Loans (Bearer Bonds). These loans are assets of the Palestine Government for disposal as may be agreed. At 31st March, 1946, the loans from revenue totalled £P.5,245,206 while from War Loans (Bearer Bonds) loans of £P.1,282,000 had been made.

6. *Trust funds* consist of Museum of Archæology Endowment Fund, Russian State Fund and Smith (B. C.) Trust Fund, which must be negotiated with the Commission in the light of the respective Trust deeds.

7. *Palestine 3 per cent. Defence Bonds and Palestine Savings Certificates* were inaugurated under a Palestine War Loan Ordinance of 1941 for the purpose of lending the proceeds to His Majesty's Government to meet war expenditure. These bonds and certificates were issued on prescribed terms of redemption; in the case of the 3 per cent. Defence Bonds, seven years from the date of purchase, and in the case of saving certificates the normal ten-year period. Earlier repayment may be possible if this concession would secure satisfactory arrangements as to the servicing of the 3 per cent. Guaranteed stock, relieving His Majesty's Government of her guarantee on being given satisfactory indemnification as dealt with in paragraph 40.

8. *Budgetary expenditure* may well not be possible on many projects owing to labour and material difficulties; but the result is reflected in the estimated General Revenue balance given.

9. *Obligations under Palestine Ordinances.*—There may well be a number of obligations under Palestine ordinances which may need to be given adequate cover. These, in the main, deal with requisitioned lands and compensation payments and will require to be negotiated. The legal aspect generally in connection

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with Palestine Ordinances is being dealt with by the Colonial Office and it is mentioned here because certain financial obligations may arise for negotiation.

10. *Contingent liabilities.*—It is difficult at this stage to envisage what may be contingent liabilities; but there may well be items of stores and supplies which may not be brought to account on the termination of the Mandate. Such claims must obviously fall to be met from Palestine assets.

APPENDIX C

A.—Palestine Potash

By a long-standing agreement with the Palestine Potash Company the whole output of potash is taken by His Majesty's Government on a cost-plus 12½ per cent. profit basis. This potash is used to meet in part the requirements of the United Kingdom, Dominions and Colonies, and the present arrangement continues the procedure approved by the International Emergency Food Council during the period when potash was subject to international allocation. Allocations of potash ceased on 30th June, 1947. The company, under a British and Palestinian Directorate, hold a concession for 75 years from 1934, granted by the High Commissioner on behalf of Palestine, and also by agreement with the King of Transjordan on behalf of that territory in which a part of the concession lies. Royalties are paid to Palestine and to Transjordan.

2. The potash from the concession area contains a high percentage of K_2O and this high-quality fertiliser is indispensable to the food production of the United Kingdom and the Empire. Potash of this quality to replace any short-fall on Palestine supplies cannot be obtained from other sources and it is essential to ensure that the existing supply arrangements, which are favourable to the company and to His Majesty's Government, should be continued after the surrender of the Mandate. His Majesty's Government have supplied capital equipment and granted a loan to the company and it is largely due to the support given, and the assured market provided by His Majesty's Government, that the company have been able to continue in operation and build up a sound position.

3. Royalties under the terms of the concessions are paid to the Palestine Government and to the Transjordan Government. It is assumed that the Palestine Government's share of the royalties will be paid to the Commission on the termination of the Mandate.

4. There is, in fact, likely to be interference with potash production, since, it is understood, that the works of the company are located partly in the Arab and partly in the Jewish proposed States.

B.—United Kingdom Imports of Food-stuffs from Palestine

1. These comprise the following estimated quantities for 1948:—

	Tons '000	£'000
(*a*) Citrus fruit 1947–48 crop ...	387	8,453
(*b*) Citrus fruit juices for soft drinks	2·1	376
(*c*) Concentrated orange juice (for Welfare Foods Scheme) ...	3·5	733
(*d*) Essential oils	165,000 (lb.)	100
(*e*) Wines (including sacramental wines)	...	207·5
		9,869·5

105,000 tons of the 1947–48 citrus fruit crop have been shipped, the balance remaining to be shipped up to April 1948.

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2. Imported citrus fruits and products from Palestine are a large source of United Kingdom supplies, amounting to not less than 75 per cent. of United Kingdom citrus fruit imports and to 50 per cent. of requirements for soft drinks and the welfare service.

3. Our citrus fruits are bought from individual shippers within the framework of an overall agreement with the Citrus Marketing Board. We should hope the Board would continue to function. If it did not, we should have to buy direct from the shippers. The season ends in April and begins again in the late autumn. The fruit juices are bought through London agents.

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E.P.C.(48) 8

21ST JANUARY, 1948.

CABINET

ECONOMIC POLICY COMMITTEE

PALESTINE AND STERLING

Memorandum by the Chancellor of the Exchequer

In this Memorandum I deal with the question whether Palestine (and Trans-Jordan) should remain a member of the Sterling Area and whether her balances should be blocked. A number of other financial and economic questions arising out of our withdrawal from Palestine are dealt with in a second memorandum which is being circulated separately (E.P.C.(48) 7).

2. I have come to the conclusion that it is necessary to remove Palestine and Trans-Jordan from the Sterling Area. The High Commissioner agrees, and urges that it should be on the 1st, 8th or 15th February.

We should choose the earliest of these three dates which is administratively practicable - probably 8th February.

I attach (Annex I) the draft of a public statement about Palestine's withdrawal from the Sterling Area, the blocking of her balances and the future of the Currency Board.

3. Palestine's normal trade position shows a heavy deficit, partially offset hitherto by heavy British military expenditure and by the Jewish Agency gift - dollar scheme. Even with these, and in spite of movements of capital into Palestine on private Jewish account, her sterling balances will have been reduced in 1947 by some £20 millions. On 30th November, 1947, they stood at £98.2 millions, and on present guesses, they might be reduced by some £33 millions in 1948. This figure projects past experience and does not allow for possible future capital movements arising out of distrust.

Such a rate of withdrawal is altogether beyond what we can afford. It would be quite out of line with other settlements we have made and provoke demands from India, Egypt next time, and many others.

4. The balances are not concentrated in the hands of a Central Bank, so that (even if there were an "opposite number" with which to make an agreement) we should still have to take positive action in the United Kingdom. This action should be by a Payments Order which, coupled with the exclusion of Palestine and Trans-Jordan from the Scheduled Territories, can make any movement into or out of a Palestine account (or any

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smaller grouping of such accounts) subject to specific Treasury permission. That permission can take the form of circular instructions to bankers stating what transactions they may pass (e.g. personal transactions on private accounts), and what must be referred to the Bank of England. Accounts or transactions which are not sanctioned, either generally or specifically, are described in this note as "blocked".

5. The problem is to determine what amounts, and what classes of accounts, should be liberated. The following proposals are put forward to deal with balances at 30th November, 1947, viz:-

		£ million
(i)	Government	10.1
(ii)	Commercial	44.1
(iii)	Currency Board	43.2
(iv)	Loan to His Majesty's Government	0.8
		98.2

(i) Government balances £10.1 million

The Overseas Negotiations Committee recommend (paragraph 30(d) of the Annex to E.P.C.(48) 7), that the surrender of Palestine Government assets is conditional on the acceptance of the liabilities incurred by the Palestine Government. It would be reasonable to make any releases subject to Treasury permission until satisfactory arrangements have been made to this end. But immediate permission might be made for the release of say £1 million as a working balance.

(ii) Commercial balances £44.1 million

Balances of private individuals (not included in this figure) need not be blocked at all. This will obviate a mass of detailed administrative work, including any questions about returning British subjects, etc. The question is thus confined to the restriction of the use of the London Balances of the Palestine banks, and the releases should be concentrated on these. Under the normal drill, any new accruals of sterling will be credited to free accounts. Since this is the season when sterling flows in from Ministry of Food fruit purchases, we need not worry unduly about working balances. It is suggested that the position up to the end of 1948 would be amply covered by releases totalling £12 millions, of which £4 millions would be called working balances, and the remainder would be a release "in respect of 1948". The Foreign Office point out, however, that it may be undesirable to prejudice the position after we relinquish the Mandate, and ask that the release should be specifically related to the period up to the 15th May, 1948, the latest date for relinquishing the Mandate, leaving releases in respect of the rest of 1948 "for negotiation with the United Nations Commission". The point is a good one, but the appropriate figure of, say, £3 millions up to 15th May, 1948, leaving £5 millions for the rest of 1948, may appear on the low side. It is nevertheless on a generous scale,

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but political considerations no doubt make it essential to avoid any appearance of non-cooperation. Consultation with the High Commissioner as to the apportionment of the releases between the banks concerned has been put in hand.

(iii) Currency Board £43.2 million

No blocking action should be taken. The Board should continue to function for the present, subject to any necessary changes in procedure. It should be treated as a resident in the United Kingdom (which it is) so that it requires permission to pay sterling to any resident outside the sterling area. Blanket permission should be given for payments in respect of Palestine Currency notes, to be made to the blocked account of any of the Palestine banks for account of the person presenting the notes. (The Banks would also have permission to pay sterling to the Currency Board from blocked accounts in exchange for Palestine notes). Other payments of sterling by the Board would be subject to permission, which would be given freely in the case of returning British nationals, but rarely otherwise.

This means that, as in the case of India, the circulation cannot be contracted to pay for imports in excess of the total annual sterling releases permitted. Palestine pounds can be held either as a currency or as a bank balance in Palestine, and can be turned into imports only to the extent to which the import licensing regulations of Government permit it. The import licensing policy itself must be conditioned by the total annual sterling releases permitted. Balances could not be transferred to other parts of the Sterling Area (e.g. South Africa) in order to evade our control.

(iv) Loan to His Majesty's Government £0.8 million

No action seems called for.

6. The result of this action will almost certainly be to leave Palestine in serious trouble over the 1948 Balance of Payments with the rest of the world. But Palestine must face realities, and if she is ever to be viable, it must be by achieving a balance on current account. Meanwhile, we cannot bear the burden alone, and it is for American-Jewish money to fill every gap caused by our restriction on the use of sterling balances. If some of those dollars have to be turned into sterling to meet a deficit with the sterling area, so much the better. On the other hand, Arab importers have no such resources, and it would be reasonable to set aside about £1 million to be at the disposal of the Palestine control to meet demands which they are satisfied would not otherwise be met. This £1 million would have to cover all such expenditure outside the sterling area.

7. American reactions

No doubt attempts will be made to misrepresent whatever action we may take. But having regard to the explicit provisions of the Anglo-American Financial Agreement, exception cannot be taken to a reasonable limitation on the drawing down of Palestine's sterling balances. Although we have not blocked any Colonial sterling, we have taken very vigorous steps to see that it is not substantially reduced, and if we achieve

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our objectives, we shall treat Palestine much more favourably than any Colony. The proposals above are already more favourable than the treatment given to India, Egypt, Brazil, Uruguay, etc.

8. Trans-Jordan

The High Commissioner recommends that Trans-Jordan must go out of the Sterling Area at the same time as Palestine. It is very difficult to achieve a complete separation of Trans-Jordan funds from those of Palestine. But there need be no objection to making a complete release, for use by Trans-Jordan only, of any balances which the banks concerned can segregate as being assets of their Trans-Jordan branches. Notes had better follow the Palestine drill, at least until Trans-Jordan can arrange to use a separate currency. Thereafter, any Palestine notes circulating in Trans-Jordan could be redeemed against payment of sterling by the Palestine Currency Board to the new Trans-Jordan Currency authority, whatever it is. Such sterling would be free of restrictions, being in the hands of a resident in the sterling area. It is probable that Trans-Jordan will arrange to separate her currency from that of Palestine in future, either issuing her own, run by a Currency Board, or by using Iraq currency. Once that is accomplished, we can consider her re-admission to the sterling area.

9. The Future

(i) Government balances would be released for payment of the liabilities of the Government of Palestine.

(ii) Commercial balances could be gradually released in the light of circumstances it is not yet possible to foresee.

(iii) The assets of the Palestine Currency Board could eventually be turned over to whatever new authority becomes responsible for the Currency, against surrender of the existing circulation as it was replaced by a new currency. Any balances would have to remain as a reserve of the (old) Currency Board against notes not collected by the new authority, until some satisfactory arrangement could be made to provide for the rights of their holders.
When the new Currency Authority comes into existence, an adjustment will be necessary in the release mechanism, so that the whole of the releases shall be under the control of the new Authority, who will be able to apportion them at their discretion.

(iv) Dollar Releases. In view of the American links, I see no need to make any provision for convertibility into any currency other than sterling. Palestine can utilise her dollar availabilities to secure any other currency she may need. But we may have to consider some small dollar provision for the Arabs, and certainly for Trans-Jordan.

10. The Statistical Picture

Figures provided by the Bank of England are given in Annex II.

R.S.C.

Treasury Chambers, S.W.1.
21st January, 1946.

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ANNEX I

DRAFT STATEMENT

The approaching termination of the Palestine Mandate has made it necessary for His Majesty's Government to consider most carefully what financial arrangements should be made in the interests of the successor Governments in Palestine and of the sterling area in order to preserve the resources of Palestine for the use of the new States and to safeguard the balance of payments position of the United Kingdom. His Majesty's Government are resolved to do all in their power to prevent damage to the financial and economic structure of Palestine during the period of their withdrawal.

During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is about £100,000,000, a large amount in proportion to the size of the country. These balances have been drawn on rapidly in recent months. This drain obviously cannot be allowed to go on. It would mean that the resources of Palestine which will be needed for the development of the country would be in danger of being unduly depleted. The drawing down of the balances in this way would also aggravate the balance of payments problem of the United Kingdom and the rest of the sterling area.

As in the case of other countries holding large balances - e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. His Majesty's Government have decided therefore, for the reasons given above, that the balances of Palestine must be similarly blocked and have taken steps accordingly. In order immediately to provide the resources necessary to carry on Palestine's normal international trade, His Majesty's

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Government will make available during the interim period and subsequently, the resources which they are satisfied are necessary.

For immediate requirements £7 millions are being released in order to provide £4 millions as working balances for the banks in Palestine and £3 millions to be used together with current accruals of sterling, which will be at Palestine's disposal for current expenditure until the middle of May.

The amounts of these releases have been arrived at after careful consideration and consultation with the present administration and His Majesty's Government are satisfied that they should prove amply sufficient to enable Palestine to meet all her needs during that period. Future policy for release from the sterling balances will be the subject of consultation between His Majesty's Government's representative at the United Nations, Sir Alexander Cadogan, and the Commission for Palestine which is now being established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon as the Joint Economic Board is established, His Majesty's Government will also initiate discussions with that Board for the same purpose.

In the special circumstances of Palestine, where His Majesty's Government must assume that, for a period at least, a thorough and comprehensive exchange control will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine, so long as the country remained in the sterling area. If His Majesty's Government allowed a situation to continue in which such leakages could occur, they would not be carrying out their responsibilities to the sterling area or to Palestine. They therefore consider it desirable in the interests of both that Palestine should not

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remain a member of the sterling area and she has ceased to be a member therefore from ....Feb 22..... the date on which the balances have been blocked. Should the Successor Governments desire it, His Majesty's Government will be ready to discuss with them the question of their readmission to the sterling area.

As regards currency arrangements, the existing Currency Board, subject to any necessary changes in procedure, will continue to function in the interests of the holders of currency and of Palestine generally pending an orderly transition to whatever arrangements may in due course be made for the future management of the currency. His Majesty's Government hope it will be possible to arrange for the United Nations Commission, if they so desire, to appoint a representative to act as an observer at the deliberations of the Currency Board.

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ANNEX II

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

(Amounts in £ millions)

1. Palestine's Balance of Payments is at present dominated by two factors, (a) heavy military expenditure by the U.K. and (b) support from Jews in America both in cash and kind.

2. The attached statements (which in view of the intended withdrawal make a purely arbitrary guess, at what military expenditure will be in 1948) exclude goods imported free under the Jewish Agency Gift-dollar Scheme. No figures for such imports are available in London but by assuming them to be roughly equal to the difference between recorded imports and recorded payments to U.S.A. and Canada[1] (not an entirely satisfactory method over a short period) the balance of payments on current account may be set out more revealingly as follows:-

£ millions	1946	1947	1948
Imports (c.i.f.)	52½	74	73
Exports (f.o.b.)	17½	19	25
Deficit on visible trade	- 35	- 55	- 48
Net invisibles (including oil)	-	+ 2	- 1
Deficit on ordinary account	- 35	- 53	- 49
Jewish Agency Gifts (very conjectural)			
: in cash	+ 6	+ 4	+ 5
: in kind	+ 3½	+ 7	+ 5
	- 25½	- 42	- 39
Military expenditure	+ 23	+ 18½	+ 8
Cost of camps in Cyprus	-	- 1	- 2½
Deficit on current account	- 2½	- 24½	- 33½

3. So far as the U.K. is concerned the forecasts in the tables are mostly based on Departmental estimates; those for U.S.A., Canada, South and Central America are based on telegrams 1987 and 1988[A] from Palestine.

4. The bulk of the expenditure during the first half of 1948 on the cost of camps in Cyprus represents monies already owing and is due for early settlement.

5. As at present forecast Palestine's sterling balances are likely to be drawn down during 1948 by 33½.

19th December, 1947

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[1] The difference between imports from and payments to Canada suggests that Jewish Agency dollars are also being used to purchase goods in Canada.

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SECRET

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

1. CURRENT ACCOUNT

£ millions

	1946	1947			1948				
					Forecast				
	Year	I	II	III	IV	Year	I & II	III & IV	Year
PAYMENTS									
Imports (c.i.f.)(a)									
United Kingdom	10.9	3.7	2.4	2.5	3.0	11.6	7.5	8.5	16.0
U.S.A.	3.3	1.2	1.1	2.6	3.0	7.9	} 4.4	1.6	6.0(f)
Canada	.7	.2	.2	.4	.5	1.3			
S. & C. America	1.1	.2	.6	.5	.5	1.8	)		
Turkey	5.2	1.7	1.2	1.5	1.5	5.9	3.0	3.0	6.0
Other	27.5	8.6	9.6	10.0	10.0	38.2	20.0	20.0	40.0
	48.7	15.6	15.1	17.5	18.5	66.7	34.9	33.1	68.0
Refined Oil(b)	4.2	1.0	1.2	1.3	1.3	4.8	2.0	3.0	5.0
Cost of camps in Cyprus	-	1.2	-	-	-	1.2	2.7	-	2.7
Invisibles: U.K.	.7	.1	.1	.2	.2	.6	.3	.3	.6
: U.S.A.	1.0	.3	.2	.4	.4	1.3	.6	.6	1.2
: Other	?					?			?
Total identified payments	54.6	18.2	16.6	19.4	20.4	74.6	40.5	37.0	77.5
RECEIPTS									
Exports & re-exports (f.o.b.)(c)									
United Kingdom	3.2	3.1	1.4	.8	2.5	7.8	8.3	4.9	13.2
U.S.A.: Diamonds	4.6	.1	.1	.1	.1	.4	)		
: Other	.5	-	-	-	-	-	} .7	.9	1.6
Canada	.1	-	-	-	-	-			
S. & C. America	-	-	-	-	-	-	)		
Other	8.9	3.5	2.3	2.6	2.5	10.9	5.0	5.0	10.0
	17.3	6.7	3.8	3.5	5.1	19.1	14.0	10.8	24.8
Oil companies expenses	4.2	1.2	1.7	1.8	1.8	6.5	2.5	2.5	5.0
Military expenditure(d)	22.8	5.0	4.7	4.5	4.5	18.7	8.0	-	8.0
Invisibles: U.K.	1.2	.7	.3	.3	.3	1.6	.6	.6	1.2
: U.S.A.(e)	6.8	1.6	.9	1.0	.9	4.4	2.5	2.5	5.0
: Other	?					?			?
Total identified receipts	52.3	15.2	11.4	11.1	12.6	50.3	27.6	16.4	44.0

(a) Excluding crude oil and oil companies equipment and also goods imported free under Jewish Agency Gift-dollar Scheme.

(b) Payments to U.K. companies.

(c) Excluding oil and oil products.

(d) Net of surplus stores disposals, N.A.A.F.I. remittances, etc. but for cost of camps in Cyprus settled through the Crown Agents see PAYMENTS.

(e) Including Zionist Gift-dollars surrendered.

(f) Goods to the value of a further 5.2 are expected free under the Gift-dollar Scheme.

19th December, 1947

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SECRET

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

2. SUMMARY

£ millions

	1946	1947					1948		
					Forecast				
	Year	I	II	III	IV	Year	I & II	III & IV	Year
Identified transactions on Current Account									
Payments	54.6	18.2	16.6	19.4	20.4	74.6	40.5	37.0	77.5
Receipts	52.3	15.2	11.4	11.1	12.6	50.3	27.6	16.4	44.0
Deficit	*2.3	3.0	5.2	8.3	7.8	24.3	12.9	20.6	33.5
Errors and Omissions(a)	3.1	4.2	.7	.6		4.3			
Identified investment/ disinvestment	.8	1.2	4.5	8.9	7.8	20.0	12.9	20.6	33.5

* Figures shown underlined thus are deficits:- 2.3

3. CAPITAL ACCOUNT

£ millions

Net banking assets in U.K.(b) increase/decrease									
: Government	3.9	.6	ø .7	1.0					
: Currency Board	4.9	3.8	1.9	2.0					
: Commercial	1.1	3.2	1.9	5.9					
	.1	1.2	4.5	8.9	7.8	20.0	12.9	20.6	33.5
Recorded imports of gold	.7								
Other capital movements(a)	?					?			?
	.8	1.2	4.5	8.9	7.8	20.0	12.9	20.6	33.5

ø Figures underlined thus are decreases:- .7

(a) There is reason to suppose that there have been considerable movements of capital into Palestine on private account.

(b) At 30th November, 1947, Government 10.1, Currency Board 43.2, Commercial 44.1, Loan to H.M.G. .8 } 98.2

19th December, 1947

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I have written to Mr Eastwood at Stoppenhill at once

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TOP SECRET

2.2.48.

My Dear Ernie,

I am extremely worried about getting the Americans know of our proposed action at Egaton Palestine & the Haifa area until at earliest 24 hours before we act. The danger of a leak are so great and the results would be so completely disastrous that I do not think we can take the risk.

I suggest therefore that we tell the Ambassador, ask him for any of his personal suggestions as to the statement to be put out and tell him that we can undertake to communicate it to the highest level 24 hrs before we act.

I hope you will agree this.

Yours

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N/C
no encs.

E.R. Dept. first

B.S. Bennett
Jan 31
L.N.E. Pym
3/1

(365) Wt. 25886/149 100m. 1/48 A.O.Sr.

114 2m

2nd February 1948.
~~January~~

IMMEDIATE (By Fast Air Bag)

TOP SECRET

Sir,

I transmit to you herewith two copies of a paper prepared for the Cabinet by the Overseas Negotiations Committee on financial and economic questions arising out of the withdrawal of British authority from Palestine, and two copies of a memorandum and draft announcement prepared by the Treasury regarding the exclusion of Palestine (and Transjordan) from the sterling area. The policy laid down in these papers has now been approved.

2. I shall be glad if you will be guided by the Overseas Negotiations Committee's paper in your discussions with the United Nations Commission on any financial and economic points arising out of the relinquishment of the Palestine mandate. A summary of the recommendations accepted by the Cabinet will be found in the covering memorandum by the Chancellor of the Exchequer dated the 21st January. As regards the decision to exclude Palestine from the sterling area, you will have learned of this intention from previous semi-official correspondence and from telegrams which are being despatched concurrently with this despatch. I shall be glad if you will treat the matter as top secret until [redacted] you receive a further tel. which will give you a date on which a suitable communication shd be made to the U.N. Comm.

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3. There is one point on which the Overseas Negotiations Committee paper requires modification. The section on German assets (see recommendation C of the Chancellor's memorandum) recommends that a final decision on implementing the policy which would best serve H.M.G.'s interest financially should await the report of the Treasury representative now in Palestine. In the event, a final decision has now been taken before the return of the Treasury representative to London in the sense that the Government of Palestine should proceed with the liquidation of German assets in Palestine, leaving only the mechanics of transfer for later decision. H.M.G. are responsible to the Inter-Allied Reparation Agency in respect of German assets in Palestine, and hold these assets in trust for the I.A.R.A. The question of their disposal does not arise until the final instructions of the I.A.R.A. are given for the distribution of the assets as a whole. It is therefore impossible for H.M.G. to shelve the responsibility for liquidating these assets during the remaining period of the mandate, and there is no question of the Jewish or Arab communities in Palestine being thereby arbitrarily deprived of what is rightly theirs.

4. In this connexion, you will have seen from telegram No. 169 of January 24th from Jerusalem (repeated to you as BRIEF No. 185) that, according to the Treasury representative ~~recently came to Palestine~~, Jewish interests in Palestine are anxious ~~desirous~~ to buy some of the properties concerned from the Custodian of Enemy Assets, presumably with a view to securing a good title during the period of the mandate. This fact may be useful

as/

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115

as showing that the sale of these assets by the mandatory Power is not opposed by Jewish opinion in Palestine.

5. I am sending a copy of this despatch to H.M. Ambassador at Washington.

31.1

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3148 Wt. 26469/137 50m 9/46 (51) F.&S.

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FOREIGN OFFICE, S.W.1.

2nd February 1948.

116

No.22

OUT FILE

(E 1275/7/G)

IMMEDIATE
TOP SECRET

Sir,

I transmit to Your Excellency herewith two copies of a paper prepared for the Cabinet by the Overseas Negotiations Committee on financial and economic questions arising out of the withdrawal of British authority from Palestine, and two copies of a memorandum and draft announcement prepared by the Treasury regarding the exclusion of Palestine (and Transjordan) from the sterling area. The policy laid down in these papers has now been approved.

2. I shall be glad if you will be guided by the Overseas Negotiations Committee's paper in your discussions with the United Nations Commission on any financial and economic points arising out of the relinquishment of the Palestine mandate. A summary of the recommendations accepted by the Cabinet will be found in the covering memorandum by the Chancellor of the Exchequer dated the 21st January. As regards the decision to exclude Palestine from the sterling area, you will have learned of this intention from previous semi-official correspondence and from telegrams which are being despatched concurrently with this despatch. I shall be glad if you will treat the matter as top secret until you receive a further telegram which will give you a date on which a suitable communication should be made to the United Nations Commission.

3. There is one point on which the Overseas Negotiations Committee paper requires modification. The section on German assets (see recommendation C of the Chancellor's memorandum) recommends that a final decision on implementing the policy which would best serve His Majesty's Government's interest financially should await the report of the Treasury representative now in Palestine. In the event, a final decision has now been taken before the return of the Treasury representative to London in the sense that the Government of Palestine should proceed with the liquidation of German assets in Palestine, leaving only the mechanics of transfer for later decision. His Majesty's Government are responsible to the Inter-Allied Reparation Agency in respect of German assets in Palestine, and hold these assets in trust for the I.A.R.A. The question of their disposal does not arise until the final instructions of the I.A.R.A. are given for the distribution of the assets as a whole. It is therefore impossible for His Majesty's Government to shelve the responsibility for liquidating these assets during the remaining period of the mandate, and there is no question of the Jewish or Arab communities in Palestine being thereby arbitrarily deprived of what is rightly theirs.

4./

His Excellency
The Right Honourable
Sir Alexander Cadogan, G.C.M.G., O.C.B.,
etc., etc., etc.,
New York.

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4. In this connexion, Your Excellency will have seen from telegram No.169 of the 26th January from Jerusalem (repeated to you as M.E.F No.185) that, according to the Treasury representative, Jewish interests in Palestine are anxious to buy some of the properties concerned from the Custodian of Enemy Assets, presumably with a view to securing a good title during the period of the mandate. This fact may be useful as showing that the sale of these assets by the mandatory Power is not opposed by Jewish opinion in Palestine.

5. I am sending a copy of this despatch to His Majesty's Ambassador at Washington.

I am, with great truth and respect,
Sir,
Your Excellency's obedient servant,
(For the Secretary of State)

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Registry No. E1275/76

Top Secret.
~~Secret.~~
~~Confidential.~~
~~Restricted.~~
~~Open.~~

JG SB

Draft.

U.K. Del. New York

Telegram.

No. 620

(Date) 7th II

Repeat to :—

Washington 1713

~~Ex-Cipher~~ ~~Code.~~ *Cypher.*

Distribution :—

Diplomatic Secret

Copies to :—

Colonial Office
Treasury

9th February, 1948.

118

B

CYPHER

F.O., 19

Despatched M.

Important
~~Top Secret~~
Dedip

Addressed to U.K. Delegation, New York, Tel. No. 620 of 7th II

Repeated for information to Washington

My telegram No. 1712 to Washington of 7th II : Palestine and sterling area.

As the date of action has been deferred, Colonial Secretary should be in the U.S. in time to make the necessary communication to Mr. Marshall: the Chancellor and I therefore hope that he will make the communication personally as originally proposed.

2. Please so inform Mr. Creech-Jones on arrival.

~~Secret~~

(33654) Wt.14096/147 100,000 6/47 A.& E.W.Ltd. Gp.685

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Cypher/OTP
E.1275/7/G
Top Secret

DIPLOMATIC (SECRET)

FROM FOREIGN OFFICE TO NEW YORK.

(To United Kingdom Delegation to United Nations)

No. 620

11th February 1948. D. 4.45 a.m. 12th February 1948
Repeated to Washington No. 1713.

IMPORTANT.
TOP SECRET.
DEDIP.

Addressed to United Kingdom Delegation New York telegram No. 620 of February 11th repeated for information to Washington.

My telegram No. 1712 to Washington [of February 11th: Palestine and sterling area].

As the date of action has been deferred, Colonial Secretary should be in the United States in time to make the necessary communication to Mr. Marshall: the Chancellor and I therefore hope that he will make the communication personally as originally proposed.

2. Please so inform Mr. Creech-Jones on arrival.

[Copy sent to Middle East Secretariat].

v v v

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Registry No. E1275/7/G

9th February, 1948.

20

A

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~~Restricted.~~
~~Open.~~

CYPHER F.O. 194

Despatched [illegible] M.

Draft.

WASHINGTON

Telegram.

No. 1712

(Date) Feb 11

Repeat to :—

U.K. Delegation New York

E.R. Dept. first

3 drafts

Agreed with Try.

D. S. Bevin
PCH. 10
L.G.L. Pyman

~~*En Clair.*~~ 10/2

Code.=

Cypher. R.A.B. Burrows 10.2

Distribution :—

Dip. Secret

11.2

Copies to :—

Treasury
Colonial Office

13/2

Important

Top Secret

DEDIP

Addressed to Washington No. 1712 7th Feb 11
Repeated for information to
U.K. Delegation New York

As you will be aware from my despatch No.22 to Sir A. Cadogan, economic and financial measures necessary as a result of termination of Palestine mandate have been under consideration by Ministers, and conclusion has been reached that it is necessary to remove Palestine and Transjordan from the sterling area and block the majority of the Palestine sterling balances from 22nd February.

2. It is now proposed to release statement to press at 1 a.m. on Sunday, February 22nd. You will have learnt of reasons for this postponement from recent telegrams to Amman repeated to you. I am instructing Sir A. Cadogan to inform the United Nations Commission at the same time as the announcement is made.

3. It is probable that attempts will be made by the Jewish lobby to misrepresent our action, but we hope that you and Sir A. Cadogan will be able to counter such misrepresentations. In view of the probability of such a reaction, we are most anxious to ensure that the U.S. Government thoroughly understand in advance the reasons necessitating our decision. As Colonial Secretary will now be in the U.S. well in advance

of/

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(33054) W.14690/147 100,000 6/47 A.& E.W.Ltd. Gp.685

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Reference:-
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of proposed date of announcement, Chancellor and I would like him to make the necessary communication personally to Mr. Marshall. It will be as well for you to inform State Department (preferably Henderson) shortly in advance of Colonial Secretary's action so that Mr. Marshall may be briefed.

4. We agree that these communications should be made two days before the announcement, i.e. on February 20th (instead of February 13th). Meanwhile it is most important that no indication of our intentions should become known. Unfortunately leakage is always possible and if it is necessary for action to be taken earlier at short notice (see my telegram No.79 to Amman) we shall let you know by most immediate telegram as soon as we can. It may not, however, be possible to give the U.S. Govt. as much as two days' notice. In that ease we would not expect Colonial Secretary to make communication to Mr. Marshall and you should notify State Department on receipt of my instructions. Treasury will instruct Sir G. Munro to make a simultaneous approach to U.S. Treasury.

5. We suggest that you emphasise particularly the following points :

(1) The action is genuinely in the interests of Palestine as well as of the sterling area.

(2) Having regard to the explicit provisions of the Anglo-American Financial Agreement, exception cannot be taken to a reasonable limitation of the drawing down of Palestine's sterling balances.

(3) The currency board will continue to function in London, with the object of maintaining confidence in the Palestine currency.

(4)/

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(4) His Majesty's Government have explicitly declared their willingness to discuss with the successor Governments, should they so desire, the question of their readmission to the sterling area.

6. We should be grateful to know urgently whether you consider that in order to meet the expected reactions, any amendment is necessary in the draft statement attached as Annex I to E.P.C.(48)8 enclosed ~~with~~ in copy of my despatch referred to in para.1 above. Amounts quoted in paragraph 4 of that statement are £7 million, £4 million and £3 million respectively.

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3148 Wt. 26469/137 50m 9/46 (51) F.&S.

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Cypher/OTP
E1275/1/G. DIPLOMATIC (SECRET)

Top Secret.

FROM FOREIGN OFFICE TO WASHINGTON

NO. 1712.
February 11th, 1948. D.4.40.a.m. February 12th, 1948.

Repeated to U.K.Delegation New York No. 619.

IMPORTANT.

TOP SECRET.

DEDIP.

Addressed to Washington No. 1712 of February 11th, repeated for information to United Kingdom Delegation New York.

As you will be aware from my despatch No. 22 to Sir A. Cadogan, economic and financial measures necessary as a result of termination of Palestine mandate have been under consideration by Ministers, and conclusion has been reached that it is necessary to remove Palestine and Trans-Jordan from the sterling area and block the majority of the Palestine sterling balances from 22nd February.

2. It is now proposed to release statement to press at 1 a.m. on Sunday, February 22nd. You will have learnt of reasons for this postponement from recent telegrams to Amman repeated to you. I am instructing Sir A. Cadogan to inform the United Nations Commission at the same time as the announcement is made.

3. It is probable that attempts will be made by the Jewish lobby to misrepresent our action, but we hope that you and Sir A. Cadogan will be able to counter such misrepresentations. In view of the probability of such a reaction, we are most anxious to ensure that the United States Government thoroughly understand in advance the reasons necessitating our decision. As Colonial Secretary will now be in the United States well in advance of proposed date of announcement, Chancellor and I would like him to make the necessary communication personally to Mr. Marshall. It will be as well for you to inform State Department (preferably Henderson) shortly in advance of Colonial Secretary's action so that Mr. Marshall may be briefed.

/4.

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4. I agree that these communications should be made two days before the announcement, i.e. on February 20th (instead of February 13th). Meanwhile it is most important that no indication of our intentions should become known. Unfortunately leakage is always possible and if it is necessary for action to be taken earlier at short notice (see my telegram No. 79 to Amman) we shall let you know by most immediate telegram as soon as we can. It may not, however, be possible to give the United States Government as much as two days' notice. In that case we would not expect Colonial Secretary to make communication to Mr. Marshall and you should notify State Department on receipt of my instructions. Treasury will instruct Sir G. Munro to make a simultaneous approach to United States Treasury.

5. I suggest that you emphasise particularly the following points:

(1) The action is genuinely in the interests of Palestine as well as of the sterling area.

(2) Having regard to the explicit provisions of the Anglo-American Financial Agreement, exception cannot be taken to a reasonable limitation of the drawing down of Palestine's sterling balances.

(3) The currency board will continue to function in London, with the object of maintaining confidence in the Palestine currency.

(4) His Majesty's Government have explicitly declared their willingness to discuss with the successor Governments, should they so desire, the question of their readmission to the sterling area.

6. I should be grateful to know urgently whether you consider that in order to meet the expected reactions any amendment is necessary in the draft statement attached as Annex I to E.P.C. (48)8 enclosed in copy of my despatch referred to in paragraph 1 above. Amounts quoted in paragraph 4 of that statement are £7 million, £4 million and £3 million respectively.

[Copy sent to Middle East Secretariat.]

66666

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E 1295

En Clair DIPLOMATIC (SECRET)

FROM WASHINGTON TO FOREIGN OFFICE

Lord Inverchapel.
No.749 D. 6.20 p.m. 14th February, 1948
14th February, 1948 R.11.21 p.m. 14th February, 1948

Repeated to United Kingdom Delegation New York.

IMMEDIATE

Addressed to Foreign Office telegram No.749, repeated to United Kingdom Delegation New York.

Your telegram No.1712 paragraph 6.

I do not (repeat not) consider any amendment necessary.

[Copy sent to Middle East Secretariat].

k k

JB 24.16

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Registry No. E1278/7/G

19th February, 1948.

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~~Restricted.~~
~~Open~~

JG SB

F.O., 19 2 1948

Despatched 9.50 P.M.

Draft.

Washington

Immediate
Top Secret

Telegram.

Addressed to Washington tel.No. 2059 of Feb 20th
Repeated to U.K. Delegation New York,
Jerusalem & Amman

No. 2059

(Information)

(Date) Feb 20th.

Repeat to :—

U.K. Delegation, New York 798.

Jerusalem

Amman 110.

Your tel. No. 749 of Feb. 14 : Palestine and sterling area.

Following is final text of statement to be issued at 1 a.m. on February 22nd.

Begins.

The approaching termination of the Palestine Mandate has made it necessary for His Majesty's Government to consider what financial arrangements should be made in order to preserve the resources of Palestine for the use of the new States and to safeguard the balance of payments position of the sterling area. His Majesty's Government are resolved to do all in their power to prevent damage to the financial and economic structure of Palestine during the period of their withdrawal.

2. During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is about £100,000,000; a large amount in proportion to the size of the country. These balances have been drawn on rapidly in recent months so that the resources of Palestine, which will be needed for the development of the country, are in danger of being unduly depleted

and/

Try & Co. Concur E.R. Dept. have had copy

H.M.S. Beirut Feb. 20

~~For Chair~~
~~Code~~.
Cypher.

Distribution :—

Dip. Secret

Copies to :—

Treasury
Col. Office.

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and the balance of payments problem of the sterling area is aggravated.

3. As in the case of other countries holding large balances - e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. His Majesty's Government have decided therefore that the balances of Palestine must be similarly blocked and have taken steps accordingly. ~~His~~ His Majesty's Government will make available from those balances during the remaining period of the Mandate and subsequently ~~the resources necessary to carry on Palestine's normal international trade~~ which they are satisfied are necessary in order to provide immediately for the carrying on of Palestine's normal international trade.

4. For immediate requirements £7 millions are being released in order to provide £4 millions as working balances for the banks in Palestine and £3 millions to be used together with current accruals of sterling which will be at Palestine's disposal for current expenditure until the middle of May. The amounts of these releases have been arrived at after careful consideration and consultation with the present administration and His Majesty's Government are satisfied that they should prove sufficient to enable Palestine to meet all her essential needs during that period. Future policy for release from the sterling balances will be the subject of consultation between His Majesty's Government's representative at the United Nations, Sir Alexander Cadogan, and the Commission for Palestine which has been established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon

as/

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as the Joint Economic Board is established, His Majesty's Government will also initiate discussions with the Board for the same purpose.

5. In the special circumstances of Palestine, where His Majesty's Government must assume that, for a period at least, a thorough and comprehensive exchange control will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine or of the sterling area. If His Majesty's Government allowed a situation to continue in which leakages could occur, they would not be carrying out their responsibilities to the sterling area or to Palestine. His Majesty's Government therefore consider it desirable that Palestine should not remain a member of the sterling area and she has ceased to be a member from February 22nd, the date on which the balances have been blocked. Should the successor Governments desire it, His Majesty's Government will be ready to discuss with them the question of their readmission to the sterling area.

6. As regards currency arrangements, the existing Currency Board, subject to any necessary changes in procedure, will ~~presumably~~ continue to function in the interests of the holders of currency and of Palestine generally pending an orderly transition to

whatever/

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whatever arrangements may in due course be made for the future management of the currency. His Majesty's Government hope it will be possible for the United Nations Commission, if they so desire, to appoint a representative to act as an observer at the deliberations of the Currency Board. Ends.

BMGS

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DIPLOMATIC (SECRET) DISTRIBUTION

FROM FOREIGN OFFICE TO WASHINGTON

No. 2059
20th February, 1948 D: 9.50 p.m. 20th February, 1948

Repeated to: New York (United Kingdom Delegation) No. 798
Jerusalem
Amman No. 110

IMMEDIATE
TOP SECRET

Addressed to Washington telegram No. 2059 of February 20th repeated for information to United Kingdom Delegation New York, Jerusalem and Amman.

Your telegram No. 749 [of February 14th : Palestine and sterling area].

Following is final text of statement to be issued at 1.a.m. on February 22nd.

[Begins]

The approaching termination of the Palestine Mandate has made it necessary for His Majesty's Government to consider what financial arrangements should be made in order to preserve the resources of Palestine for the use of the new States and to safeguard the balance of payments position of the sterling area. His Majesty's Government are resolved to do all in their power to prevent damage to the financial and economic structure of Palestine during the period of their withdrawal.

2. During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is about £100,000,000; a large amount in proportion to the size of the country. These balances have been drawn on rapidly in recent months so that the resources of Palestine, which will be needed for the development of the country, are in danger of being unduly depleted and the balance of payments problem of the sterling area is aggravated.

3. As in the case of other countries holding large balances - e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. His Majesty's Government have decided

/therefore

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therefore that the balances of Palestine must be similarly blocked and have taken steps accordingly. In order to provide immediately for the carrying on of Palestine's normal international trade His Majesty's Government will make available from those balances during the remaining period of the Mandate and subsequently the resources which they are satisfied are necessary.

4. For immediate requirements £7 millions are being released in order to provide £4 millions as working balances for the banks in Palestine and £3 millions to be used together with current accruals of sterling which will be at Palestine's disposal for current expenditure until the middle of May. The amounts of these releases have been arrived at after careful consideration and consultation with the present administration and His Majesty's Government are satisfied that they should prove sufficient to enable Palestine to meet all her essential needs during that period. Future policy for release from the sterling balances will be the subject of consultation between His Majesty's Government's representative at the United Nations, Sir Alexander Cadogan, and the Commission for Palestine which has been established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon as the Joint Economic Board is established, His Majesty's Government will also initiate discussions with the Board for the same purpose.

5. In the special circumstances of Palestine, where His Majesty's Government must assume that, for a period at least, a thorough and comprehensive exchange control will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine or of the sterling area. If His Majesty's Government allowed a situation to continue in which leakages could occur, they would not be carrying out their responsibilities to the sterling area or to Palestine. His Majesty's Government therefore consider it desirable that Palestine should not remain a member of the sterling area and she has ceased to be a member from February 22nd, the date on which the balances have been blocked. Should the successor Governments desire it, His Majesty's Government will be ready to discuss with them the question of their readmission to the sterling area.

6. As regards currency arrangements, the existing Currency Board, subject to any necessary changes in procedure, will continue to function in the interests of the holders of currency and of Palestine generally, pending an orderly transition to whatever arrangements may in due course be made for the future management of the currency. His Majesty's Government hope it will be possible for the United Nations Commission, if they so desire, to appoint a representative to act as an observer at the deliberations of the Currency Board.

[Ends].

GGGG
333

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23

1948

E

PALESTINE

E 1303

30 JAN 1948

129

Registry Number: E1303/7/31

FROM: GO Cmund.

No. Lt-G. Clawson

Dated

Received in Registry: 30 Jan.

Hard supplies for Pal Car after May 15th
Copy of letter from Lt G Clawson G.O.C to
Y.R. Rear of 19 Jan. concerning question
of future supply of Pal Car Ford. etc.
requirements after the termination of the
Mandate.

Last Paper.

1275

References.

(Minutes.)

Sir S.P. McFarquhar & Lt-G. Clawson G.O. 24/1
- McClellan & McMahon 26/1

JD 30 Jan 31

(Print.)

(How disposed of.)

(Action completed.)	(Index.)
31/1	18/4/49

Next Paper.

1343.

29470 F.O.P.

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Nothing to be Written in this Margin.

Minutes.

130
Enter E

Please see Sir Gerard Clauson's letter of the 19th January , addressed to Mr.Rowan.

E

This point obviously cannot be considered before the general economic provisions are dealt with by Ministers. It is understood that the Ministry of Food will continue after May 15th for a brief period at any rate, to act as agents for the procurement and shipment of food and other essential supplies for Palestine. They obviously cannot be responsible then, as they will have no administrative status in Palestine. They must act as agents for either the successor States or the Joint Economic Board, if set up, or failing either of these, for the United Nations Commission. The provisions in the C.P.C.paper mention the Secretary of State's promise to ease the transitional period, and in practice we are not going to put ourselves in the position where we are responsible for an unnecessary breakdown in essential supplies during the transition period.

Can be held

I informed Mr.Rowan I was not replying to this letter at present, as I thought he might want to deal with it by means of an ad hoc meeting, and I am waiting to hear what his decision is. Meanwhile E.R.D. etc. would be grateful for Eastern Dept.'s comments.

Trevelyan -

H.Trevelyan.

22nd January 1948.

Eastern Dept.

I agree with the line taken by Mr Trevelyan. We do not wish to tie ourselves in any way in regard to Palestine after the relinquishment of the

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the Minutes.

Mandate but we do not want to add famine to chaos. Consequently we can agree to act for a time as purchasing agents for the UN Commission or other authority (and leave ourselves the possibility of taking the necessary steps to avert disaster in the case of an absolute emergency)

H.S. Bevin
Jan 23

I understand that what the C.O. have in mind is to ensure that supplies continue to reach Palestine for three months after the end of the Mandate, i.e. until the 15th August. This seems reasonable, provided we so inform the U.N. Commission without delay (since they must arrange for orders to be placed soon if there is to be no interruption of imports after the 15th August). H Beeley 23/1 L.F.L. Pyman 25/1

Nothing to be Written in this Margin.

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Nothing to be Written in this Margin.

Minutes.

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I agree

23.1

I assume the supplies are intended for the whole of Palestine and not for the Jewish state only. If so, I agree

24.1

Yes

Mr Bevin

For information. I shall find out how this is to be dressed.

24/1.

Mr. Makins

29/1

Further correspondence on the strictly administrative side has now been received, & OIC chairman shows no disposition to refer this up. Mr Bevin has therefore agreed that this should now be handled by Foreign Dept.

29.1.48

1 Foreign Dept
2 Butler.

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1. Foreign Dept.

With Sir G. Clauson's compliments.

Church House,
Westminster, S.W.1.

E 1[illegible] 19th January, 1948.

30 JAN 1948

I am writing to you with regard to the recommendation in paragraph 51 of the Report on Palestine of the Overseas Negotiations Committee (O.N.(48)15 of the 7th January) which deals with the particular question of food and fertiliser supplies for Palestine. The effect of this recommendation, as we interpret it, would be that the Ministry of Food which has hitherto dealt with the programming, sponsoring and procurement of supplies for Palestine would wash its hands of Palestine's requirements altogether so far as the period after the 15th May, the latest date for the termination of the mandate, is concerned. This would mean the immediate cessation of the flow of supplies which will be necessary to keep Palestine going after that date.

Whilst we agree that the future supply of Palestine's requirements after the termination of the mandate will be a matter for the U.N. Commission and that it should be taken up with them at the earliest possible moment (we have in fact instructed our representatives on the U.K. delegation in New York to see that this is done) we are perturbed at the possibility that in the meantime and until the U.N. Commission are able to take effective steps to fill the gap, any immediate stoppage of the procurement programme may result in Palestine's going short of supplies in the period between the 15th May and the final withdrawal of the British forces - the end of July. In our opinion there is not only a grave moral liability to ensure that the abrupt cessation of our procurement of supplies for Palestine, before the United Nations Commission can reasonably be expected to take alternative arrangements, does not result in serious risk

... overl. S.o., E.B.

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risk of famine in the period immediately after the termination of the Mandate, but it is also very much in our own interest to see that such conditions do not arise. If a famine were added to the other difficulties which the military authorities will have to face in extricating British troops from Palestine it might seriously affect their programme of withdrawal, particularly as the directive proposed for the G.O.C. imposes certain obligations on him in regard to the welfare of the civilian population in the areas still under military occupation and the general economy of the country. The War Office will, I feel sure, support this view.

I am sorry to raise this matter at this late hour. The above considerations were advanced when the U.N. Report was in course of preparation, but we now feel that they should have been more strongly pressed, in spite of the Ministry of Food's reluctance to continue their responsibility for Palestine's requirements beyond the 15th May, and we should be glad if the policy proposed could be reconsidered.

I am sending copies of this letter to Beaverbrook, Ministry of Food, Trevelyan, Foreign Office, and Charteris, War Office.

(Sgd.) G. L. M. CLAUSON

RECEIVED IN F.O.B.
29 JAN 1943
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Mr. Trevelyan - with Mr. Feaveryear's compliments.

24th January, 1948.

Dear Clauson,

We spoke about the letter you addressed to Rowan on the 14th January, and I gathered that what was in your mind as regards foodstuffs for Palestine after the 15th May was the problem whether the Army might need to have food in hand for civilians in the area from which and through which it would be withdrawing during the succeeding period.

I see that related questions are raised in paragraphs 10 and 11 of Washington cable number 142.

The problem that may face the military authorities after the 15th May must be provided for, and the Ministry of Food must see whether it can arrange to assist them in dealing with it. My present feeling is that the best approach to it might be to ask the military authorities themselves to let us have an estimate of the quantities and types of food they think we ought to provide for them. They will be dealing with a limited and progressively reducing area, and it may well be doubtful whether they would wish to attempt to handle bulk cargoes.

Apart from this it seems to me that the appropriate reply to paragraphs 10 and 11 of cable number 142

/is on

Sir Gerard Clauson, K.C.M.G., C.B.E.,
Colonial Office,
Church House,
Gt. Smith Street,
S.W.1.

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is on the lines originally drafted: that we have projected our programme of supplies forward to the 15th May; and that we procure the United Nations Commission will wish to consider what arrangements they will wish to take in the course of the next three and a half months so as to ensure continuity of supplies from the second half of May onwards.

I am sending copies of this to Bowen, Trevelyan and Chartoris.

Yours sincerely,

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WHItehall 9400, From: Lt.Col The Hon. M.H.C. Charteris. OBE,
Ext. [redacted], Room 118,

BM/2232(NO.4). 26 January, 1948.

Dear Mathieson.

Please refer to Sir Gerard Clauson's letter to Rowan dated 19th January, a copy of which was sent to me.

I agree that a famine in Palestine during the period from the termination of the Mandate until the final evacuation of our troops would cause a most unwelcome and unfortunate complication to the already very great problems which will beset the G.O.C. and in so far as this is concerned the War Office support the view expressed in Sir Gerard Clauson's letter.

I must, on the other hand, comment on the statement that the proposed directive "imposes certain obligations on him in regard to the welfare of the civilian population in the areas still under military occupation.

The draft directive has been framed to ensure that the G.O.C. is not asked to accept obligations which are not essential to the safety of his forces and to the orderly progress of withdrawal.

/The directive..

W.M.C. Mathieson, M.B.E.,
Room 344,
Colonial Office,
London, S.W.1.

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The directive specifically states:-

(a) "It is not part of your duty to undertake any administration for any part of Palestine except in so far as it is essential in order satisfactorily to achieve your object".

(b) "you will, however, conduct the evacuation with due regard to the welfare of the civilian population".

The G.O.C. thus would have no positive obligation with regard to civil administration.

I make the point as I feel that it is important that this distinction should be realised.

I am sending copies of this letter to Feavearyear, Ministry of Food, Trevelyan, Foreign Office and Clauson, Colonial Office.

Yours sincerely

(Sgd) Martin Charteris.

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E1343 1Y/~~8~~ 31/G

F.O. Minute
Mr Trevelyan
Dated 29 Jan

Palestine: Economic Measures

Last Paper.

E1275

References.

(Print.)

(How disposed of.)

(Minutes.)

See E1275 action
JB Jan 31

(Action completed.)	(Index.)
JF 6/2	

Next Paper.

30471 F.O.P.

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2 FEB 1948

E *Minutes.*

E1343/7/9

Please see brief for Secretary of State below and papers to which it refers.
I should like to get the brief to Secretary of State tomorrow, through Sir E. Hall-Patch, as the Boo the paper has already gone to the Chancellor after its approval this afternoon, and he will want to circulate it immediately to members of E.P.C. Method of communication to Sir A. Cadogan, Washington & State Dept. will be taken up later. 19/1/48

Eastern Dept.
Mr. Malkin (has seen brief).
Sir E. Hall-Patch.

On the Transjordan point (para. 3 of brief) I attach a draft tel. to Amman which has been agreed with the Treasury.

Mrs Bevin
Jan 20

20.1

This problem has only been put to me today.

2. It is important if we are to carry out the spirit of our recent talks with the Americans about the Middle East, and also in order to forestall as far as possible any

critical/

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critical reactions from the United States Government, that we should inform Mr. Henderson of the State Department through our Embassy in Washington not less than a week beforehand. We can do this in strict confidence.

3. The question of German assets (see brief for the Secretary of State, paragraph 4) clearly needs careful consideration. I note that a final decision is to be deferred.

4. We must of course take every possible care to forestall as far as possible accusations that H.M.G. are proposing to appropriate assets belonging to the Government of Palestine.

5. I have no further comments at such short notice.

Mr Knight

20th January, 1948.

Para. 2. This is a good point & I have included it in the brief for the S/S.

Para 3 & 4 I agree.

Th [illegible]
20/1

I agree with the draft letter to Sir O. Sargent.

Sir O. Sargent.

E [illegible] 20/1

~~I regret that, after the most careful search in Private Office, I could not find the above mentioned file. A copy of the brief is attached; but this is all of the Treasury papers, except those with the brief.~~

~~Foreign Office.~~

Farrell.
21/1/48.

Jan 21

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30 JAN 1948

Palestine: Economic Measures.

Discussed today between Treasury, M. of Defence, & Colonial Secretary see minute to P.M. 24

The Chancellor is about to circulate to the Economic Policy Committee the papers of which copies are below: -

(i) Treasury Note regarding Palestine sterling balances (Flag A)

(ii) Draft public statement regarding Palestine sterling balances (Flag B)

(iii) General recommendations on Palestine financial and economic questions (Flag C).

2. The most important decision is that it is necessary that the Palestine sterling balances (£98 million) should be blocked and that Palestine should be removed from the sterling area. There can be no doubt that this step is essential in order to safeguard our own balance of payments position and to preserve the resources of Palestine for the successor States. It is realised that this decision may provoke strong adverse criticism from the Jewish lobby in the United States, and that the misrepresentations which are probable may do us harm with United States public opinion at a critical time. The Foreign Office has considered this aspect very carefully; but has come to the conclusion that the measure is essential. (probably on February 7th) It must be carried out immediately, before Sir Alexander Cadogan enters on financial discussions with the United Nations Commission, as complete secrecy is essential and this would be impossible if the question were to be discussed in advance with the Commissioner. The public statement at Flag B, which will be issued simultaneously in the U.K. and U.S.A., has been carefully drafted in the light of the likely reactions. The Treasury hope to be able to send a representative from Washington to assist Sir Andrew A. Cadogan in meeting public criticism, and

/every

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every effort will be made to explain the decision in a favourable light. The statement includes a promise that His Majesty's Government will be ready to discuss with the successor governments the question of their re-admission to the sterling area. It promises that future policy for ~~the~~ releases from the sterling balances will be the subject of consultation between His Majesty's Government's representative and the Palestine Commission, and that similar discussions will be initiated with the Joint Economic Board when it is established. It states that the existing Currency Board will continue to function in the interests of the holders of ~~large balances~~ currency in Palestine and generally, and offers the U.N.Commission the chance of appointing a representative to act as an observer on it.

3. For technical reasons it is impossible to keep Trans-Jordan in the sterling area once Palestine leaves it, as they have the same currency. It is intended to have discussions with the Trans-Jordan Government in advance in order to explain the position to them, to assure them that their position when outside the sterling area will be the same as when they were in it and to promise that they will be re-admitted as soon as they - with assistance from us - can make new currency arrangements. A simultaneous public announcement will be made on this point, emphasising that the step has been taken by agreement with the Trans-Jordan Government.

4. Another difficult point which the paper at Flag C

/considers

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Now para 31-38 of EPC(43)7 - Flag C.

considers (See revised portion at Flag D) is the disposal of German assets in Palestine. We are faced here with, on the one hand, the likelihood of a considerable loss in desirable foreign exchange owing to our obligations to the Inter-Allied Reparations Agency, if we do not liquidate and transfer these assets, and, on the other hand, the danger of more misrepresentation by the Jewish lobby on the lines that we are taking away from Palestine assets which should belong to the Jews and help to repay them for their sufferings. The issues are complex, and it has been decided to defer a final decision on this question until the prospective visit of a Treasury expert to Palestine.

Para ascertained before deferring

5. The further recommendations in the paper at Flag C. are in brief as follows: -

(a) Para.14. Continuing validity of agreements between the Palestine Government and British Oil Companies and freedom of the Companies to export petroleum products to such destinations as they choose.

(b) Para 30. The drawing of a clear distinction between the assets of H.M.G. and those of the Palestine Government; protection of the rights of Service Departments in land [illegible]; arrangements for the safe custody of military stores left behind by the Services; acceptance of the liabilities incurred by the Palestine Government; protection of the Palestine Government's control over the Palestine finances, and indemnification of H.M.G. in respect of their guarantee of Palestine stock and for payment of superannuation benefits.

(c) Para 44. Various miscellaneous provisions on the treatment of goods, U.K. and Palestine Companies and Shipping.

(d) Paras 46 and 51. Continuation of exports of citrus and potash to the U.K; the continuation of procurement of food and fertilisers

/by

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by H.M.G. up to the termination of the Mandate and our continuing to act as agents for procurement and shipment of food supplies after that date, if requested, though not for any considerable period and without any direct responsibility for sponsorship, procurement and shipment of supplies.

Recommendations:

The Foreign Office recommend that the proposals in these papers should be approved. In view of the importance of these questions, they have expressed a wish that the Foreign Secretary should have an opportunity to see these papers before they are circulated to the Economic Policy Committee.

H Trevelyan.

H. Trevelyan.

19th January 1948.

I have followed these discussions with the Treasury throughout and have participated myself where necessary. I agree with the recommendations given above.

Sheldon Caccia
20/1/48

The Americans should be given warning of what we propose to do of at least a week. It will have to done in strict confidence, but I understand this can be arranged.

The point should perhaps be made at any meeting of Ministers.

Sheldon Caccia 20/1/48

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30 ... 1948

E

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E.R. Dept.
(Tined Box).

E.P.C.(48) 7 and E.P.C.(48)8.

Palestine Economic Measures.

1. Statement of Problem.

A brief on these papers was prepared for the Secretary of State and is attached to this brief. The papers to which the former brief refer were advance copies of the papers now to be considered, which have been marked with the same flags. The former brief covers the relevant points. The Secretary of State discussed this with the Minister of Defence and the Colonial Secretary, and he recorded the minute to the Prime Minister, a copy of which is at Flag E.

It is important that if possible these papers should be taken by the Cabinet very urgently. The Foreign Office wishes to discuss the implications of these proposals on Trans-Jordan with the Prime Minister of Trans-Jordan who is now ~~on his way to~~ arrived in this country and is expected to stay here about a week. The Secretary of State also said that he wished these proposals to be put in advance to the U.S. State Department and the U.S.Treasury at a high level, and it is necessary to do this about a week before the action is taken. It is proposed that the action should be taken on February 3th and it is very desirable that it should not be delayed, as secrecy is of great importance and it will not be possible for Sir Alexander Cadogan to delay discussion of financial questions with the Commission for very long.

/Recommendations.

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Recommendations.

The Foreign Office repeats the recommendations made in the previous brief ~~with~~ on these papers. We fully realise the political dangers involved in the blocking of the sterling balances in Palestine and the exclusion of Palestine from the sterling area, but are convinced that it is necessary in the interests of the sterling area and of Palestine. Every effort will be made to explain these measures in the United States in such a way as to discount the expected adverse criticism from the Jewish lobby.

H. Trevelyan.

H.Trevelyan.

26th January, 1948.

U.B. Strang
26/1

L. H. Wilson Patrick
26/1

The recommendation was approved. The problem will go to the Cabinet with a covering minute to be drafted by the P.M.

Ed. Jowett. 28/1.

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30 JAN 1948 1) F.R. Dept 2) Eastern Dept

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Printed for the Cabinet. January 1948

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Copy No. 7

E.P.C. (48) 7

21*st January*, 1948

CABINET

Economic Policy Committee

FINANCIAL AND ECONOMIC QUESTIONS RESULTING FROM THE WITHDRAWAL FROM PALESTINE

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

I attach for the consideration of my colleagues the report of the Overseas Negotiations Committee on financial and economic questions arising out of the withdrawal of British authority from Palestine, for which the Cabinet asked at their meeting on 4th December (C.M. (47) 93rd Conclusions, Minute 1).

2. It will be observed from paragraph 4 of the report that the following three questions are dealt with in a separate memorandum which is being circulated as E.P.C. (48) 8 :—

(i) Should Palestine leave the sterling area?
(ii) Should Palestine sterling balances be blocked?
(iii) Should the Palestine Currency Board continue to operate?

3. The following is a statement of the recommendations for which approval is desired :—

A.—*Oil Interests* (paragraph 14)

It is recommended that Sir Alexander Cadogan should seek to establish with the United Nations Commission that :—

(*a*) All agreements between the Palestine Government and the Iraq Petroleum Company Limited and Consolidated Oil Refineries Limited, respectively, should be treated in accordance with Chapter 3, paragraph 3 (*d*), of the Plan of Partition with Economic Union, *i.e.*, that they shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State.

(*b*) The British oil companies in Palestine should be free to export petroleum products to such destinations as they choose.

It is further recommended that Sir A. Cadogan should be asked :—

(*c*) To give early warning of any hint that the Commission may be considering dollar-invoicing the products of the Consolidated Refineries Limited.

B.—*Assets and Liabilities* (paragraph 30)

It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure that :—

(*a*) A clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government.

(*b*) That the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government Departments, with freedom to dispose of such assets as they may deem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked :—

(*c*) To discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles :—

(*d*) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine

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Government (there is every indication that the liabilities will exceed the liquid assets).

(*e*) That notwithstanding clause 2 of Section E of Chapter 4 of U.N.S.C.O.P. Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and

(*f*) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3 per cent. Guaranteed Stock, and for payment of superannuation benefits.

C.—*German Assets* (paragraph 38)

It is recommended that a final decision on implementing the policy which would best serve His Majesty's Government's interests financially, described in (*a*), (*b*) and (*c*) of paragraph 37, should await the report of the Treasury representative now in Palestine, it being understood that so far as can be determined at present any alternative to the policies advocated in (*a*) and (*b*) must definitely result in serious loss to the Exchequer, some of which will be in terms of lower receipts of hard currency (Swiss francs from German assets in Switzerland).

D.—*Safeguards for Commercial Interests* (paragraph 44)

It is recommended that Sir A. Cadogan should be asked :—

(*a*) On the treatment of goods, to discuss the question with the Commission on the lines proposed in paragraph 41.

(*b*) On the treatment of nationals, companies and shipping, to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most-favoured-nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions customarily included in commercial treaties. Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

E.—*Exports from Palestine* (paragraph 46)

It is recommended that Sir A. Cadogan be asked to request the United Nations Commission to facilitate the exports of citrus and potash to the United Kingdom.

F.—*Procurement of Food-stuffs and Fertilisers* (paragraph 51)

It is recommended that Sir A. Cadogan be asked :—

(*a*) to inform the United Nations Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May, the latest date for the termination of the Mandate;

(*b*) to inform the United Nations Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently;

(*c*) If the United Nations Commission request us to continue *as agents* procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions, but to give no indication that we should be prepared to act as agents in this matter for any considerable period.

R. S. C.

Treasury Chambers, S.W. 1.
21*st January*, 1948.

NOTE.—During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other assets.

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SECRET

22*nd January*, 1948

CABINET

FINANCIAL AND ECONOMIC QUESTIONS ARISING FROM THE WITHDRAWAL OF BRITISH AUTHORITY FROM PALESTINE

REPORT OF THE OVERSEAS NEGOTIATIONS COMMITTEE

Introductory

THE Overseas Negotiations Committee were asked to prepare, for consideration by Ministers, a comprehensive paper on financial and economic questions arising out of the withdrawal of British authority from Palestine (C.M. (47) 93rd Conclusions, Minute 1).

2. This report has been prepared on the basis that as far as practicable it should be assumed that the United Nations plan will be put into effect. In fact, however, as far as can be foreseen, the Palestine Arabs supported by the Arab States will boycott the United Nations Commission and refuse to co-operate in the establishment of an economic union of Palestine administered by a joint economic board. Unless the Commission is furnished with a force by the United Nations for the maintenance of order, it seems likely that guerilla warfare and confusion will reign in the areas evacuated by British troops. The confusion may well be increased by the migration of Jews and Arabs from areas where they are in a minority. The Jews will probably have to defend themselves within an enclave limited by military requirements; the remaining part of Palestine will be in Arab hands but is unlikely to be constituted as an Arab State since this would represent acquiescence in the partition plan. Where, therefore, any breakdown of the United Nations Plan would vitally affect our financial and economic interest in Palestine the relevant portion of the report will point this out and the recommendations will take account of it.

3. Very broadly the United Nations Plan provides: (*a*) that the mandatory Powers shall hand the administration of Palestine over to a Commission appointed by the United Nations which shall establish Arab and Jewish States and an international State in the City of Jerusalem; (*b*) that these States shall be united in an economic union of Palestine among whose principal objectives will be a Customs Union and a Joint Currency system providing for a single foreign exchange rate; (*c*) that there shall be established a Joint Economic Board, whose functions will be to implement either directly or by delegation the measures necessary to realise the objectives of the Economic Union. Until the Joint Economic Board is functioning (if indeed it ever does) the United Nations Commission will have full responsibility for financial and economic administration.

4. A separate submission is being made by the Treasury, proposing that—

(*a*) Palestine should leave the Sterling Area;
(*b*) Palestine's sterling balances should be blocked; and
(*c*) the Palestine Currency Board should continue to operate for the present.

The rest of this paper has been prepared on the assumption that these proposals are approved. (If Palestine's sterling balances are to be blocked, it will be necessary for the Committee to consider the level of the releases to be made.)

Oil Interests

5. Palestine is highly important to the British oil position, since oil produced in Iraq by the Iraq Petroleum Company is piped by them across Palestine to the Company's tank farm near Haifa, from which they feed crude oil to the

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Consolidated Refineries Limited. Approximately 2 million tons per annum of crude oil are now derived from this pipeline and 1 million tons each are shipped on British Companies' account from Tripoli and the Persian Gulf. It is hoped that the refining capacity at Haifa will be increased to produce from 7–9 million tons per annum by 1951, using the increased quantities of crude oil which should flow through the new pipeline now under construction.

6. The crude oil produced by the Iraq Petroleum Company is owned as to 47½ per cent. by British interests, as to 23¾ per cent. by United States interests, as to 23¾ per cent. by French interests, and as to 5 per cent. by a Mr. Gulbenkian. The Consolidated Refineries Limited are 100 per cent. British-owned.

7. The Iraq Petroleum Company and Consolidated Refineries Limited operate in Palestine under agreements with the Palestine Government due to expire in January 2001 and October 2003, respectively. In the United Nations Plan of Partition with Economic Union, Chapter 3, paragraph 3 (*d*) stated "Commercial concessions granted in respect of any part of Palestine before such adoption of the resolution by the General Assembly shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State." The operation of the two companies should be protected by this article. The Iraq Petroleum Company have, however, a number of other agreements with the Palestine Government and Municipalities involving such considerations as mining rights, water projects, occupation of land, &c., which they would also wish to have safeguarded.

8. Because of the shortage of refining capacity throughout the sterling area and the rest of the world, the loss of the refinery at Haifa, or any attempt by the local government to restrict or direct export of petroleum products, or to interfere with imports of machinery, raw materials and crude products, essential both for normal requirements and maintenance of the refinery and pipelines and for expansion schemes, would have a most serious effect on the oil situation in the sterling area. Palestine and other neighbouring States draw their requirements of petroleum products from the refinery at Haifa and interference with the production or the products would, therefore, also have serious repercussion on those States. It would also seem to be against the interests of a Jewish successor Government in Palestine to take any action which would close Haifa refinery or restrict its activities, since this would lose for them an important source of revenue. Current annual expenditure by the British Oil Companies on loading dues, taxes, rents, wages, purchase of local materials and capital costs is estimated at about £5·25 million, and will be considerably higher when the expansion schemes have been completed and are operating.

9. At the moment the Refinery Company never owns the oil that it processes. It is remunerated on a fee basis and, as its sole shareholders are Companies that distribute the refined product, this fee may be less than would be charged by an outside concern. There is a possibility that the successor Government will be attracted by the opportunity of earning hard currency or gold presented by the existence of the refinery on its territory. Assuming that it respects the terms of the convention signed by the Mandatory Government in 1933, it cannot secure an appreciable return from the Company by way of taxation or port dues certainly until 1958 and probably not before the beginning of next century.

10. The successor Government may, however, attempt to secure an exchange profit either by—

(*a*) insisting that the Refinery Company increases its processing fee to the full "economic" level and receives some part of the fee in gold or hard currency, or

(*b*) more likely—laying down that all oil refined in Palestine must be sold for dollars.

Whether the successor Government will really give way to this temptation is unknown. If it did and succeeded the result would be extremely serious. The production of the Haifa refinery will increase during the next few years. If the oil companies have their way the British share alone will be 7½ million tons in 1950 and the difference in cost between the crude oil intake (for which presumably we would charge Palestine dollars in the circumstances envisaged) and refined oil output is of the order of £20 million at present prices.

11. Alternative 10 (*a*) therefore would mean our paying a fair proportion of this amount in gold; alternative 10 (*b*) would mean paying in dollars for that proportion of the Haifa output that was consumed in the sterling area.

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12. On the other hand, we are not without weapons with which to oppose such an attempt by the successor Government, *e.g.*, (*a*) we could refuse to proceed with the expansion of the refinery and the pipeline across Palestine which this involves, (*b*) refineries wear out pretty quickly and we could in the last resort (and at considerable expense to ourselves) transfer the refinery elsewhere, (*c*) dollar-invoicing is a game at which two can play and Palestine must take an appreciable part of her imports from the sterling area

13. For the moment it is difficult to see what can be done to ward off the prospect of the successor Government adopting such tactics. We certainly do not want to delay the expansion of Haifa longer than we are already likely to be forced to delay it by shortages of plant and material. On the other hand if, during the discussions, there is any hint that we are going to be faced with this sort of demand, His Majesty's Government should have early warning in order to reconsider the policy in regard to the refinery.

13A. It should be mentioned that the Iraq Government have expressed anxiety about the future of the Haifa refineries in view of their interest in the exports of Iraqi oil through that port.

13B. The effect of the establishment of a Jewish State on the existing and projected pipelines also requires careful examination. Arab States may well make difficulties over way-leaves of pipelines whose terminals are to be in the Jewish State. American pipeline construction may be difficult in Arab countries for some time to come.

Recommendations

14. It is recommended that Sir Alexander Cadogan should seek to establish with the United Nations Commission—

(*a*) that all agreements between the Palestine Government and the Iraq Petroleum Company Limited and Consolidated Oil Refineries Limited respectively should be treated in accordance with Chapter 3, paragraph 3 (*d*). of the Plan of Partition with Economic Union, *i.e.*, that they shall continue to be valid according to their terms, unless modified by agreement between the concession-holder and the State;

(*b*) that the British oil companies in Palestine should be free to export petroleum products to such destinations as they choose.

It is further recommended that Sir A. Cadogan should be asked—

(*c*) to give early warning of any hint that the Commission may be considering dollar-invoicing the products of the Consolidated Refineries Limited.

Assets and Liabilities

Fixed Assets in Palestine of His Majesty's Government

15. Details of the value of the fixed assets constructed by the Service Departments in Palestine have been requested from the Middle East but this information has not yet been received. It is believed that the bulk of the assets are sited on requisitioned, hired and expropriated land. Many of these assets are of military value only but others would have considerable civilian-use value. The Service Departments are endeavouring to sell the assets which have been constructed on freehold land, but sales of assets of major political significance will only be made with the concurrence of the Palestine Government.

16. In the absence of the report referred to, only very tentative estimates of the value of the assets can be made, but the salvage value of assets constructed on hired, requisitioned or expropriated land is believed to be of the order of £2 million and the value to a willing purchaser would probably be substantially higher.

17. It is the view of the Palestine Government that if titles remain in their present form, *i.e.*, vested in the High Commissioner, there might be a difficulty in asserting the rights of the Service Departments of His Majesty's Government in this land after the termination of the Mandate when the office of the High Commissioner will presumably cease to exist. This land was vested originally in the High Commissioner on behalf of the Service Departments concerned, presumably to avoid any question arising of challenge under Article 5 of the Mandate, but it seems clear that the provisions of this article were not

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intended to preclude ordinary acquisition of private rights to land, *cf.* leases granted to foreign consulates and the British Army in Palestine.

18. It is the conclusion of the High Commissioner that the safest and most effective means of protecting the interests of His Majesty's Government in this land is to vest it directly in the Service Department concerned, either by a special ordinance or otherwise, and he has so informed the Military Authorities concerned in Palestine. It is their policy to endeavour to sell off all immovable assets with the least possible delay but, both because this may mean considerable loss and because in the time and with the staff available it may not prove possible to dispose of all property, some such method of protecting His Majesty's Government's interests appears necessary.

Movable Assets

19. The only known movable assets of His Majesty's Government remaining in Palestine after the termination of the Mandate will be military stores. A detailed note on these is given in Appendix B.

Liabilities of the Palestine Government

20. The appointment of a United Nations Commission as an administering authority for the whole of Palestine to take over the administration of the country following the termination of the Mandate involves the question of the negotiations to be carried out for the surrender of the assets of the Palestine Government and the terms upon which such a surrender should be made. In such negotiations it is essential that clear distinction is drawn between the assets of the Palestine Government and the assets of His Majesty's Government.

21. The Commission will, no doubt, be guided by the financial clauses of the Plan of Partition with Economic Union and these present some difficulties as to the definition of the obligations of the Palestine Government, the means which would be available to honour the obligations taken over by the Commission and the handling and distribution of governmental movable and immovable assets.

22. The assets of the Palestine Government might be summarised as follows :—

(i) General revenue balances.
(ii) Funds for specific purposes.
(iii) Funds in respect of Public Debt.
(iv) Government lands, buildings and stores.
(v) Internal loans.
(vi) Trust funds.
(vii) Palestine 3 per cent. Defence Bonds and Palestine Savings Certificates.

23. The liabilities of the Palestine Government might be summarised as follows :—

(i) Budgetary expenditure until termination of the Mandate.
(ii) Public Debt.
(iii) Specific obligations in respect of the right of public servants, including pensions, compensations or gratuities.
(iv) Specific obligations under Palestine Ordinances.
(v) Contingent liabilities.

24. These assets and liabilities are individually dealt with in Appendix B, except for the special problems arising on the Public Debt of Palestine and on Pension obligations, which are explained in the following paragraphs.

25. *The Public Debt of Palestine* consists of :—

(i) £P.3,600,000—3 per cent. Guaranteed Loan, 1962–67;
(ii) War Loan (Bearer Bonds), 1st, 2nd, 3rd and 4th issues, totalling £5,791,960.

The 3 per cent. Guaranteed Loan, less stock redemptions, at 31st March, 1947, stood at £P.3,150,000. This stock is guaranteed as to principal and interest by the Treasury under an Act of Parliament of the United Kingdom of Great Britain and Northern Ireland entitled "The Finance Act, 1939" (24 and 25 George V, cap. 32).

26. The operation of the Joint Economic Board to be set up under the Partition Plan makes provision for the service of the outstanding public debt of the

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Palestine Government. An agreement with the United Nations Commission safeguarding the servicing of the 3 per cent. Guaranteed Stock and War Loans (Bearer Bonds) should be a major objective of our financial negotiations.

Pension Obligations

27. Palestine Government have pension obligations under Palestine Ordinances as well as obligations in connection with the Palestine Provident Fund, Widows' and Orphans' Pensions Fund. In addition, the Palestine Government have not yet finalised their views as to the payment of compensation and gratuities to public servants and to the police on termination of the Mandate. Preliminary views of the Government of Palestine have indicated that their proposals may involve a sum of £P.18 million on the basis of " funding " pensions. However, it may be possible to arrive at some more economical method of meeting the charge. The position of expatriate officers of the Palestine Civil Service will need careful consideration. In the main it is hoped that the majority will be found other employment in the Colonial Service but there may be a small residue who cannot be so placed for some while after the termination of the Mandate.

Qualifications on Acceptance of Financial Obligation

28. 3 (*a*) of Chapter 3 of the Report of the United Nations *Ad Hoc* Committee on the Palestinian Question imposes a qualification as to the financial obligations which the State shall respect and fulfil. While saying that all financial obligations of whatever nature assumed on behalf of Palestine by the Mandatory Power during the exercise of the Mandate shall be respected and fulfilled, there is the important overriding condition that such obligations would be those recognised by the State. The United Kingdom delegation has reserved His Majesty's Government's position regarding any clauses in the Plan, and we must resist this qualifying condition to the extent of making the unqualified acceptance of the obligations of the Palestine Government a condition for the surrender of its assets.

Means of Meeting Obligation

29. Then there is the question of the means which the Commission will employ to meet certain charges arising out of the obligations taken over. As to the servicing of the public debt and the cost of superannuation benefits now being paid or falling due in future, the Partition Plan envisages these charges as being met from the common revenue of the Joint Economic Board. This presupposes that this Board will be set up and function satisfactorily; but this would appear to be a doubtful proposition in present circumstances. Should there be difficulties in setting up (*a*) the respective States, which seems probable in the case of the Arab State, and (*b*) the Economic Union, the Commission may not be in a position to implement its agreement to discharge the liabilities taken over unless there are safeguards against such a contingency.

Recommendations

30. It is recommended that in his negotiations with the United Nations Commission Sir Alexander Cadogan should ensure—

(*a*) that a clear distinction is drawn between Palestine Government assets and assets of His Majesty's Government,

(*b*) that the vesting of land directly in the Service Departments is duly acknowledged as full and clear title of His Majesty's Government departments with freedom to dispose of such assets as may seem desirable should they not be disposed of before the termination of the Mandate.

It is further recommended that Sir Alexander Cadogan should be asked—

(*c*) to discuss with the Commission plans for the safe custody of such stores left behind by the military, and for their movement to the Haifa enclave for subsequent evacuation, possibly an appreciable time after 1st August.

It is further recommended that Sir Alexander Cadogan should be asked to establish the following principles :—

(*d*) That the surrender of Palestine Government assets is conditioned on the unqualified acceptance of the liabilities incurred by the Palestine Government (there is every indication that the liabilities will exceed the liquid assets).

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(*e*) That notwithstanding clause 2 of Section E of Chapter 4 of the U.N.S.C.O.P. Report (see footnote), as long as the mandatory period lasts, Palestine Government must be free to control the finances of Palestine as she deems necessary in the interest of Palestine as a whole, and

(*f*) That adequate arrangements are made to indemnify His Majesty's Government in respect of their guarantee of Palestine 3 per cent. Guaranteed Stock, and for payment of superannuation benefits.

German External Assets in Palestine

31. *The General Background.*—By the decision of the Berlin Conference of July–August, 1945, it was decided that, "the reparation claims of the United States, the United Kingdom and other countries to reparations shall be met . . . . and from appropriate German external assets." By the provisions of Article 6 of Part I of the Final Act of the Paris Conference on Reparation, "each signatory Government shall, under such procedures as it may choose, hold or dispose of German assets within its jurisdiction *in manners designed to preclude their return to German ownership or control and shall charge against its German reparation share such assets.*" Article 2 of Part IV of the Final Act states that "the signature of each contracting Government shall be deemed to mean that the effect of the present Agreement extends . . . . to territories under its protection or suzerainty or over which it at present exercises a mandate." Under Article IF of the Final Act of the Paris Conference on Reparation, the Inter-Allied Reparation Agency must charge the reparation account of each Signatory Government for the German assets within that Government's jurisdiction, and each Signatory Government is required to render a return of the value of such assets as defined under Article 6 of Part I of the Agreement. His Majesty's Government signed the Paris Agreement on the 21st December, 1945, when it exercised a mandate over Palestine. Under the Final Act of Paris the share to be allocated to the United Kingdom (including all areas under its jurisdiction) of the *total* of German external assets, known as Category A, which are found to be available, is 28 per cent. This means in effect that the United Kingdom is entitled to 28 per cent. of the *total* of all German assets in all the eighteen countries signatory to the Final Act of Paris, which includes the United Kingdom, plus any other external assets, *e.g.*, those made available in Neutral Countries.

32. The position of German assets in Palestine under the international arrangements described above, and His Majesty's Government's responsibility in regard thereto, is thus :—

(1) While these assets are within His Majesty's jurisdiction—

(i) His Majesty's Government is required to see that German enemy assets in Palestine are so dealt with as to preclude their return to German ownership or control;

(ii) His Majesty's Government must ensure that, while these assets remain under her jurisdiction, as at present, the value of them is included in the United Kingdom returns to the Inter-Allied Reparation Agency;

(iii) the Inter-Allied Reparation Agency is required to charge His Majesty's Government's share with the *value* of these German assets in Palestine;

(iv) it is possible that His Majesty's Government may escape responsibility for accounting for such German assets in Palestine as remain *unliquidated* when Palestine ceases to be within His Majesty's jurisdiction, if it can be shown that circumstances have rendered His Majesty's Government impotent in respect of these assets;

(v) all assets in liquid form at the time when Palestine ceased to come within United Kingdom jurisdiction would be accountable to I.A.R.A. by United Kingdom whether transferred or not.

NOTE.—During the period between the appointment of the United Nations Commission and the termination of the Mandate, the Mandatory Power shall, except in respect of ordinary operations, consult with the Commission on any measure which it may contemplate involving the liquidation, disposal or encumbering of the assets of the Palestine Government, such as the accumulated Treasury surplus, the proceeds of Government bond issues, State lands or any other asset.

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(2) All accountable German assets in Palestine are included by the Inter-Allied Reparation Agency in determining the total of Category A assets for reparation purposes, and all German assets in Palestine as defined for I.A.R.A. purposes are reparations.

German External Assets under the Control of the Custodian of Enemy Property for Palestine

33. The total estimated value of these assets is £8·8 million, and there are additional assets of perhaps twice this value belonging to Germans interned in Palestine and in Australia, and other Germans resident in Germany. These latter assets, or the proceeds of their sale, may be released to such of the owners who may not be within the legal (Custodian) definition of "enemy." Such released assets would not be accountable to the Inter-Allied Reparation Agency. After adjustments made under I.A.R.A. accounting rules for external assets the final sum hitherto considered as likely to be included ultimately in Category A in respect of German enemy assets in Palestine is £4 million. The amount of this at present in liquid form is probably less than £1 million.

Steps taken by His Majesty's Government to secure control and transfer of German enemy assets in Palestine

34. The High Commissioner for Palestine has been asked to instruct the Custodian of Enemy Property for Palestine not to vest further any German property which may have to be released (*e.g.*, internees' property). He has also been asked to consider measures whereby as much of the immovable property as possible can be liquidated. The High Commissioner has also been asked to advise on the possibility of transfer to the United Kingdom of all liquid assets now available and which become available as the proceeds of sale of assets. Arrangements have been made for an immediate visit to Palestine by a Treasury representative to investigate the position on the spot and see what steps it would be practicable and wise to take in the direction of liquidation of assets and transfer of the proceeds.

Possible Financial Effects

35. In the first estimate of German assets within the United Kingdom jurisdiction which has been made to the Inter-Allied Reparation Agency, the sum of approximately £2 million has been included on account of these assets. The provisions of the Paris Act enable us to adjust this estimate later according to the facts. The fact that we are obliged to account for assets, the value of which we know for certain, *e.g.*, because they have been liquidated, but are unable in fact to secure the transfer to the United Kingdom Exchequer, would mean that our participation in other assets under Category A of Part I of the Final Act, would be reduced. One effect of this might be to reduce our share of Swiss francs derived from the disposal of German assets in Switzerland. This reduction would not be the equivalent of the value of German assets in Palestine which we had included in the I.A.R.A. return, but would definitely reduce our share to an extent which at the moment cannot be forecast.

Jewish Claims for reparation payments

36. The Jewish Agency have hitherto claimed that, as compensation for the sufferings of Jewry under the Nazis, Palestinian Jews should receive compensation out of reparation payments over and above that already provided for in the Final Act. This provision (Article 8, Part I) allocates $25 million from German assets in neutral countries, and non-monetary gold in Germany and other assets in Germany, making an overall total of approximately $30 million. Jewish propaganda will no doubt claim that morally the whole of German assets in Palestine should be earmarked for this purpose. The Jewish Agency has already been informed that contributions from reparations for the rehabilitation of non-repatriable victims of German action are governed by the Final Act of Paris. Any contribution to Palestine over and above the agreed Palestine share of reparation can only be made at the expense of His Majesty's Goverment, whose responsibility it is to account for all these assets, the non-receipt of which would adversely affect the reparations receipts of the United Kingdom Exchequer. As these assets are reparations the Inter-Allied Reparation Agency has a responsibility to see that they are included in the total pool of Category A assets.

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Conclusions

37. His Majesty's Government's interests would best be served financially if :—

(*a*) All liquid assets were transferred out of Palestine and within the jurisdiction of the United Kingdom, before the mandate was relinquished.

(*b*) As much property as possible was henceforth liquidated before the mandate ended (provided that it is transferred as in (*a*) above).

(*c*) In the arrangements to be made with the United Nations Commission, we secured the inclusion of a statement describing the international responsibilities as regards German assets in Palestine which remain unliquidated, and therefore not transferred as in (*a*) and (*b*) above, and also secured from the United Nations Commission a recognition of these responsibilities which, so far as it was able, the Commission would accept as dischargeable to the Inter-Allied Reparation Agency through His Majesty's Government. (A primary responsibility is that these assets are so held or disposed of as "to preclude their return to German ownership or control"—Article 6A, Part I of the Final Act of Paris.)

It is clearly recognised that to take the lines described in (*a*) and (*b*) may, even with the most skilful presentation of the facts as to the position of these assets, and their setting within the field of international reparations relations, be the occasion for bitter accusations that we are robbing the Palestinians of German assets which belong to them. This is a matter which lies very close to the hearts of Jewish refugees from Germany in Palestine. There are several good answers which, in a reasonable atmosphere, should completely rebut such accusations, viz. :—

(1) Provision has already been made out of reparation assets for suffering Jewry. The provision in the Final Act (Article 8) is relatively generous. It amounts to about $30 million which is equal to above 5 per cent. of all Category A assets or to the combined shares of Norway and the Netherlands.

(2) These assets should form part of the whole pool of German external assets and would be applied by the United Kingdom to meet the claims of all the colonies, some of whom were more hardly hit than Palestine, *e.g.*, Malta.

(3) Palestine, under the arrangements contemplated for dealing with the German assets under United Kingdom jurisdiction, will receive her just proportion of the United Kingdom's share of 28 per cent.

38. A decision upon action designed to accomplish (*a*) and (*b*), and as to (*c*), turns very largely on what is found, particularly as regards (*a*), in Palestine by the Treasury representative to be practicable, and, so far as can be judged from the Palestine end, least likely to plunge the whole question into a hopeless atmosphere of unreason and prejudice.

It is recommended that a final decision on implementing the policy which would best serve His Majesty's Government's interests financially, described in (*a*), (*b*) and (*c*) of paragraph 37, should await the report of the Treasury representative now in Palestine, it being understood that so far as can be determined at present any alternative to the policies advocated in (*a*) and (*b*) must definitely result in serious loss to the Exchequer some of which will be in terms of lower receipts of hard currency (Swiss francs from German assets in Switzerland).

Palestine's Membership of International Economic and Financial Bodies

39. The Official Committee on Palestine are reviewing and making recommendations on all international obligations (including, *e.g.*, membership of international, economic and financial bodies) assumed by the United Kingdom on Palestine's behalf.

Safeguards for Commercial Interests

40. We need to safeguard our commercial position in Palestine in the interim period between the laying down of the Mandate and the negotiation of long-term agreements with the successor States. Our object should be to negotiate an arrangement with the Commission which will safeguard our position, not only while the Commission is actually administering the territory, but for an interval thereafter sufficient to give us time to negotiate commercial treaties with the successor States. It follows that we shall have to try to persuade the Commission to place some restraints on the economic freedom of the new States for the first year or two of their existence.

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Treatment of Goods

41. The protocol of provisional application of the General Agreement on tariffs and trade does not extend to Palestine until notice has been given in accordance with paragraph 2 of that protocol. It is undoubtedly in our interests that Palestine should apply the rules of the agreement on tariffs and trade. It is for consideration whether His Majesty's Government should, while they are still responsible for the administration of Palestine, give notice in accordance with paragraph 2 of the protocol to extend the application of the General Agreement on tariffs and trade to Palestine. The Palestine Government are being consulted on this point, but, subject to their views, it is proposed that we should give notice of the provisional application. If this proposal is approved, Sir Alexander Cadogan should presumably first inform the Commission that this is what His Majesty's Government propose to do, since Palestine will obtain the tariff concessions negotiated at Geneva only if she in her turn makes her concessions effective, and seeks the agreement of the Commission to the adoption of this course, and to their carrying forward the application when they take over. The Commission should also be asked to ensure that in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years should be obtained from them.

42. We can support our request by reference to the fact that, under the terms of the Mandate, Palestine was bound to grant equality of treatment to the goods, nationals, &c., of all members of the League of Nations (and by a separate agreement to the United States) and that this had to be given even if one of the countries concerned discriminated against Palestine. The line our representative should therefore take with the Commission is that Palestine has always followed a policy of non-discrimination in commercial matters and it is hoped that the policy will be continued under the Commission's régime, and further, that for the first two years of their existence the successor States shall be under an obligation to grant most-favoured-nation treatment to all members of the United Nations that accord the same to them.

The above general rule of non-discrimination would not be applied in such a way as to prevent Palestine making special customs agreements with neighbouring territories, *cf.* the existing preferential tariff arrangements with Syria and Lebanon.

Treatment of Nationals, Companies, Shipping and Civil Aviation

43. When the Mandate is terminated we shall have no treaty rights in Palestine for our nationals, their businesses or our shipping and civil aviation. In the long term these can only satisfactorily be safeguarded by the negotiation of a treaty of establishment and navigation with the successor States. It will not be practicable to negotiate detailed provisions with the U.N.O. Commission, and to cover the position in the interim period we shall have to rely on a *modus vivendi* expressed in fairly general terms.

Recommendations

44. It is recommended that Sir A. Cadogan should be asked—

(*a*) on the treatment of goods, to discuss the question with the Commission on the lines proposed in paragraph 41;

(*b*) on the treatment of nationals, companies and shipping, to secure an undertaking from the Commission that, while they are responsible for administering the territory, they will grant to United Nations nationals, including juridical persons, national and most-favoured-nation treatment in all matters pertaining to commerce, industry, shipping, civil aviation and other forms of business activity within Palestine, subject to the reciprocal grant of similar treatment in like matters by the United Nation concerned to Palestinian nationals. This undertaking would be understood to be subject to any exceptions customarily included in commercial treaties. Similarly the provisions with respect to reciprocity granted by each of the United Nations would be understood to be subject to the exceptions customarily included in the commercial treaties concluded by that State. The Commission should also be asked to ensure that, in handing over to the successor States, if and when established, a similar undertaking valid for a period of at least two years is obtained from them.

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Exports from Palestine which are Essential to the United Kingdom

45. The main exports from Palestine of interest to the United Kingdom (other than petroleum products covered in paragraphs 5–14) are :—

(*a*) Potash;
(*b*) Food-stuffs, mainly citrus fruit and fruit products.

Separate notes on these are in Appendix C.

Recommendations

46. It is recommended that Sir A. Cadogan be asked to request the United Nations Commission to facilitate the exports of citrus and potash to the United Kingdom.

Procurement of Food-stuffs and Fertilisers

Food-stuffs

47. The Ministry of Food has hitherto dealt with the programming, sponsoring and procurement of food supplies for Palestine.

48. Requirements of bread grains and rice for part of 1948 have already been considered by the I.E.F.C. The Food Mission in Washington have been asked within the last week to submit to the I.E.F.C. requirements of oils and fats for Palestine, as part of general Middle East requirements.

49. Certain quantities of the allocated foods for 1948 have been or are in course of being procured. Some small balances of Palestinian 1947 requirements yet remain to be shipped.

Fertilisers

50. The United Kingdom sponsors the requirements of the Colonies and Mandated Territories with the International Emergency Food Council in Washington. The only fertiliser now under international allocation by that body is nitrogen and the allocation of this fertiliser to Palestine for the fertiliser season ending 30th June, 1948, is 2,667 metric tons of N. Of this total, the United Kingdom is to supply 1,267 tons, Belgium 1,100 tons and Norway 300 tons. United Kingdom deliveries are made through I.C.I. (Levant), but procurement of supplies within the Belgian and Norwegian allocations is made by the Palestine Government, with such guidance as may be required from His Majesty's Government. It has been the practice in the past for the Palestine Government to use the I.C.I. (Levant) for procuring all supplies of nitrogen, but recently Norway has appeared to be unwilling to continue this arrangement.

Recommendations

51. It is recommended that Sir A. Cadogan be asked—

(*a*) to inform the United Nations Commission that we will maintain existing sponsorship, procurement and shipping of food and fertiliser supplies for Palestine which will be required up to 15th May, the latest date for the termination of the Mandate;
(*b*) to inform the United Nations Commission that we will accept no direct responsibility for sponsorship, procurement and shipment of supplies required subsequently;
(*c*) if the United Nations Commission request us to continue *as agents* procurement and shipment of food supplies, to refer to the Foreign Secretary's undertaking in the House of Commons on 12th December to render assistance to smooth out the transition, and to state that he must seek instructions, but to give no indication that we should be prepared to act as agents in this matter for any considerable period.

52. Approval is sought for the following recommendations :—

(*a*) Oil interests (paragraph 14).
(*b*) Assets and liabilities (paragraph 30).
(*c*) German assets (paragraph 38).
(*d*) Safeguards for commercial interests (paragraph 44).
(*e*) Exports from Palestine (paragraph 46).
(*f*) Procurement of food-stuffs and fertilisers (paragraph 51).

22*nd January*, 1948.

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APPENDIX A

Stores in Palestine

There are large quantities of military stores (Naval, Army and Air Force) in Palestine. A considerable proportion of these stores constitutes part of the approved maintenance and reserve stores for the Middle East garrisons and the Army generally, and with the existing and prospective stringency of financial provision for the Services the necessary replacement of such stores, if they had to be abandoned in Palestine, would be extremely difficult. It is essential that every effort should be made to withdraw all military stores, which we desire to retain, from Palestine as part of the general evacuation of that country by the Forces.

The evacuation of military stores from Palestine has already begun and is to proceed *pari passu* with the general evacuation of the Forces through the four stages of Plan A, as recently approved by the Defence Committee and endorsed by the Cabinet. The latest review of the situation suggests that, provided conditions permit the planned orderly evacuation, it should be possible to withdraw the bulk of the stores required elsewhere. There will, however, be an additional quantity of some 150,000 tons of useful stores which would have been required had the Forces remained in Palestine. Immediate replacements will not be required elsewhere, and, since it is not possible to evacuate them, these stores will remain for local disposal by the Ministry of Supply. There is a considerable risk that we may lose even their disposal value. This is not a contingency which can be lightly accepted, and the Cabinet have agreed that special measures, including the appointment of an officer charged with this particular task, should be taken to facilitate first—

(*a*) the collection and evacuation of military stores from Palestine;
(*b*) the disposal of surplus stores in Palestine.

There are two developments in the Palestine evacuation, the possible effects of which upon the stores question Sir Alexander Cadogan should be asked to bear in mind in negotiation with the United Nations authorities. First, it seems possible—and the Commanders-in-Chief, Middle East, think it is probable—that a considerable quantity of stores will in any case have to be left behind at various stages of the planned evacuation of troops. It is proposed that plans should be discussed by Sir Alexander Cadogan with a view to the safe custody of such stores left behind by the military, and (*a*) to their movement to the Haifa enclave for subsequent evacuation, or (*b*) to their disposal, possibly an appreciable time after 1st August. Secondly, deterioration of conditions in Palestine as between the Jewish and Arab communities, the premature arrival of the United Nations Commission, or other factors, may enforce some telescoping of the military evacuation plan now approved in favour of a more rapid withdrawal upon the Haifa enclave. The Commanders-in-Chief, Middle East, foresee that any such contingency would probably mean a heavy additional abandonment of stores along the line of evacuation. In this event, too, it would be important that such provision as may be possible in the circumstances then existing should be made for (*a*) subsequent concentration and movement of the stores to be evacuated into the Haifa enclave, and their safe custody there pending shipment overseas; and (*b*) the subsequent disposal of the stores declared for disposal. If a hurried evacuation were forced upon us through the United Nations Commission insisting upon what we regard as a premature arrival in Palestine, then there would be a powerful argument for insistence upon all possible facilities being provided for the evacuation of military stores which thus had to be temporarily abandoned.

It is relevant also that the evacuation of military stores, on present plans, will be slowed down by the policy of His Majesty's Government and the Palestine Administration not to interfere with the citrus trade, which is so important to Palestine's economy; this consideration likewise affords ground for seeking some *quid pro quo* as regards facilities for subsequent evacuation of stores.

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APPENDIX B

Notes on Assets and Liabilities

1. *General Revenue Balances.*—These are estimated as likely to be of the order of £2 million at 31st March, 1948. This allows for some slight recession in revenue returns offset by savings in expenditure through inability to carry out the budgetary programme. This figure might well turn into a deficit if revenues slumped to an extreme degree. No forecast is possible as to the likely position of revenue balances at 15th May; given favourable conditions it may be possible to hold the position as at 31st March.

2. The funds for specific purposes include the following:—

(i) Palestine Provident Fund.
(ii) Palestine Widows' and Orphans' Pensions Fund.
(iii) Palestine Post Office Savings Bank.
(iv) Public Service (Supplementary Grants Board).
(v) Renewals Funds—Ports, Posts and Telegraphs, Water Supply, &c.

The foregoing, with the exception of (v), must be utilised to meet the obligations of the funds they relate to. In the case of (v) these funds (which amount to approximately £734,000) could be treated either as an asset of Government to be handed over or utilised for appropriate expenditure on the services for which they were created.

3. In addition to the sinking fund arrangements for the servicing of the 3 per cent. Guaranteed Stock (dealt with in paragraph 12, the sum of £3,048,707, being the unspent balance of the various issues of War Loans (Bearer Bonds) has been invested by the Crown Agents in the interests of the bondholders. A further £500,000, which had been earmarked for a specific purpose, is also being invested.

4. Government land and buildings are proposed to be dealt with under the Partition Plan by allocating immovable assets to the Government of the territory in which they are situated. This may well present difficulties in the case of the proposed Arab State; but in our financial negotiations we should hand them over to the United Nations Commission as a Palestine Government asset and the Commission would be responsible for their subsequent disposal.

5. *Internal Loans,* these consist in the main of loans to various municipalities, to Citrus growers, local councils, village communities and agricultural loans. The foregoing have been made from Palestine general revenues at interest on varying terms of repayment. In addition, loans have been made to Municipalities, Railways and Ports from the proceeds of the War Loans (Bearer Bonds). These loans are assets of the Palestine Government for disposal as may be agreed. At 31st March, 1946, the loans from revenue totalled £P.5,245,206 while from War Loans (Bearer Bonds) loans of £P.1,282,000 had been made.

6. *Trust funds* consist of Museum of Archæology Endowment Fund, Russian State Fund and Smith (B. C.) Trust Fund, which must be negotiated with the Commission in the light of the respective Trust deeds.

7. *Palestine 3 per cent. Defence Bonds and Palestine Savings Certificates* were inaugurated under a Palestine War Loan Ordinance of 1941 for the purpose of lending the proceeds to His Majesty's Government to meet war expenditure. These bonds and certificates were issued on prescribed terms of redemption; in the case of the 3 per cent. Defence Bonds, seven years from the date of purchase, and in the case of saving certificates the normal ten-year period. Earlier repayment may be possible if this concession would secure satisfactory arrangements as to the servicing of the 3 per cent. Guaranteed stock, relieving His Majesty's Government of her guarantee on being given satisfactory indemnification as dealt with in paragraph 40.

8. *Budgetary expenditure* may well not be possible on many projects owing to labour and material difficulties; but the result is reflected in the estimated General Revenue balance given.

9. *Obligations under Palestine Ordinances.*—There may well be a number of obligations under Palestine ordinances which may need to be given adequate cover. These, in the main, deal with requisitioned lands and compensation payments and will require to be negotiated. The legal aspect generally in connection

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with Palestine Ordinances is being dealt with by the Colonial Office and it is mentioned here because certain financial obligations may arise for negotiation.

10. *Contingent liabilities.*—It is difficult at this stage to envisage what may be contingent liabilities; but there may well be items of stores and supplies which may not be brought to account on the termination of the Mandate. Such claims must obviously fall to be met from Palestine assets.

APPENDIX C

A.—Palestine Potash

By a long-standing agreement with the Palestine Potash Company the whole output of potash is taken by His Majesty's Government on a cost-plus 12½ per cent. profit basis. This potash is used to meet in part the requirements of the United Kingdom, Dominions and Colonies, and the present arrangement continues the procedure approved by the International Emergency Food Council during the period when potash was subject to international allocation. Allocations of potash ceased on 30th June, 1947. The company, under a British and Palestinian Directorate, hold a concession for 75 years from 1934, granted by the High Commissioner on behalf of Palestine, and also by agreement with the King of Transjordan on behalf of that territory in which a part of the concession lies. Royalties are paid to Palestine and to Transjordan.

2. The potash from the concession area contains a high percentage of K_2O and this high-quality fertiliser is indispensable to the food production of the United Kingdom and the Empire. Potash of this quality to replace any short-fall on Palestine supplies cannot be obtained from other sources and it is essential to ensure that the existing supply arrangements, which are favourable to the company and to His Majesty's Government, should be continued after the surrender of the Mandate. His Majesty's Government have supplied capital equipment and granted a loan to the company and it is largely due to the support given, and the assured market provided by His Majesty's Government, that the company have been able to continue in operation and build up a sound position.

3. Royalties under the terms of the concessions are paid to the Palestine Government and to the Transjordan Government. It is assumed that the Palestine Government's share of the royalties will be paid to the Commission on the termination of the Mandate.

4. There is, in fact, likely to be interference with potash production, since, it is understood, that the works of the company are located partly in the Arab and partly in the Jewish proposed States.

B.—United Kingdom Imports of Food-stuffs from Palestine

1. These comprise the following estimated quantities for 1948:—

	Tons '000	£'000
(*a*) Citrus fruit 1947–48 crop ...	387	8,453
(*b*) Citrus fruit juices for soft drinks	2·1	376
(*c*) Concentrated orange juice (for Welfare Foods Scheme) ...	3·5	733
(*d*) Essential oils	165,000 (lb.)	100
(*e*) Wines (including sacramental wines)	...	207·5
		9,869·5

105,000 tons of the 1947–48 citrus fruit crop have been shipped, the balance remaining to be shipped up to April 1948.

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2. Imported citrus fruits and products from Palestine are a large source of United Kingdom supplies, amounting to not less than 75 per cent. of United Kingdom citrus fruit imports and to 50 per cent. of requirements for soft drinks and the welfare service.

3. Our citrus fruits are bought from individual shippers within the framework of an overall agreement with the Citrus Marketing Board. We should hope the Board would continue to function. If it did not, we should have to buy direct from the shippers. The season ends in April and begins again in the late autumn. The fruit juices are bought through London agents.

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30 JAN 1948

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TOP SECRET

1) Sir R. Hall-Patch
2) E. R. Dept.
3) Eastern Dept.

Copy No. 7

E.P.C.(48) 8

21ST JANUARY, 1948.

CABINET

ECONOMIC POLICY COMMITTEE

PALESTINE AND STERLING

Memorandum by the Chancellor of the Exchequer

In this Memorandum I deal with the question whether Palestine (and Trans-Jordan) should remain a member of the Sterling Area and whether her balances should be blocked. A number of other financial and economic questions arising out of our withdrawal from Palestine are dealt with in a second memorandum which is being circulated separately (E.P.C.(48) 7).

2. I have come to the conclusion that it is necessary to remove Palestine and Trans-Jordan from the Sterling Area. The High Commissioner agrees, and urges that it should be on the 1st, 8th or 15th February.

We should choose the earliest of these three dates which is administratively practicable - probably 8th February.

I attach (Annex I) the draft of a public statement about Palestine's withdrawal from the Sterling Area, the blocking of her balances and the future of the Currency Board.

3. Palestine's normal trade position shows a heavy deficit, partially offset hitherto by heavy British military expenditure and by the Jewish Agency gift - dollar scheme. Even with these, and in spite of movements of capital into Palestine on private Jewish account, her sterling balances will have been reduced in 1947 by some £20 millions. On 30th November, 1947, they stood at £98.2 millions, and on present guesses, they might be reduced by some £33 millions in 1948. This figure projects past experience and does not allow for possible future capital movements arising out of distrust.

Such a rate of withdrawal is altogether beyond what we can afford. It would be quite out of line with other settlements we have made and provoke demands from India, Egypt next time, and many others.

4. The balances are not concentrated in the hands of a Central Bank, so that (even if there were an "opposite number" with which to make an agreement) we should still have to take positive action in the United Kingdom. This action should be by a Payments Order which, coupled with the exclusion of Palestine and Trans-Jordan from the Scheduled Territories, can make any movement into or out of a Palestine account (or any

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smaller grouping of such accounts) subject to specific Treasury permission. That permission can take the form of circular instructions to bankers stating what transactions they may pass (e.g. personal transactions on private accounts), and what must be referred to the Bank of England. Accounts or transactions which are not sanctioned, either generally or specifically, are described in this note as "blocked".

5. The problem is to determine what amounts, and what classes of accounts, should be liberated. The following proposals are put forward to deal with balances at 30th November, 1947, viz:-

		£ million
(i)	Government	10.1
(ii)	Commercial	44.1
(iii)	Currency Board	43.2
(iv)	Loan to His Majesty's Government	0.8
		98.2

(i) Government balances £10.1 million

The Overseas Negotiations Committee recommend (paragraph 30(d) of the Annex to E.P.C.(48) 7), that the surrender of Palestine Government assets is conditional on the acceptance of the liabilities incurred by the Palestine Government. It would be reasonable to make any releases subject to Treasury permission until satisfactory arrangements have been made to this end. But immediate permission might be made for the release of say £1 million as a working balance.

(ii) Commercial balances £44.1 million

Balances of private individuals (not included in this figure) need not be blocked at all. This will obviate a mass of detailed administrative work, including any questions about returning British subjects, etc. The question is thus confined to the restriction of the use of the London Balances of the Palestine banks, and the releases should be concentrated on these. Under the normal drill, any new accruals of sterling will be credited to free accounts. Since this is the season when sterling flows in from Ministry of Food fruit purchases, we need not worry unduly about working balances. It is suggested that the position up to the end of 1948 would be amply covered by releases totalling £12 millions, of which £4 millions would be called working balances, and the remainder would be a release "in respect of 1948". The Foreign Office point out, however, that it may be undesirable to prejudice the position after we relinquish the Mandate, and ask that the release should be specifically related to the period up to the 15th May, 1948, the latest date for relinquishing the Mandate, leaving releases in respect of the rest of 1948 "for negotiation with the United Nations Commission". The point is a good one, but the appropriate figure of, say, £3 millions up to 15th May, 1948, leaving £5 millions for the rest of 1948, may appear on the low side. It is nevertheless on a generous scale,

London releases.

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but political considerations no doubt make it essential to avoid any appearance of non-cooperation. Consultation with the High Commissioner as to the apportionment of the releases between the banks concerned has been put in hand.

(iii) Currency Board £43.2 million

No blocking action should be taken. The Board should continue to function for the present, subject to any necessary changes in procedure. It should be treated as a resident in the United Kingdom (which it is) so that it requires permission to pay sterling to any resident outside the sterling area. Blanket permission should be given for payments in respect of Palestine Currency notes, to be made to the blocked account of any of the Palestine banks for account of the person presenting the notes. (The Banks would also have permission to pay sterling to the Currency Board from blocked accounts in exchange for Palestine notes). Other payments of sterling by the Board would be subject to permission, which would be given freely in the case of returning British nationals, but rarely otherwise.

This means that, as in the case of India, the circulation cannot be contracted to pay for imports in excess of the total annual sterling releases permitted. Palestine pounds can be held either as a currency or as a bank balance in Palestine, and can be turned into imports only to the extent to which the import licensing regulations of Government permit it. The import licensing policy itself must be conditioned by the total annual sterling releases permitted. Balances could not be transferred to other parts of the Sterling Area (e.g. South Africa) in order to evade our control.

(iv) Loan to His Majesty's Government £0.8 million

No action seems called for.

6. The result of this action will almost certainly be to leave Palestine in serious trouble over the 1948 Balance of Payments with the rest of the world. But Palestine must face realities, and if she is ever to be viable, it must be by achieving a balance on current account. Meanwhile, we cannot bear the burden alone, and it is for American-Jewish money to fill every gap caused by our restriction on the use of sterling balances. If some of these dollars have to be turned into sterling to meet a deficit with the sterling area, so much the better. On the other hand, Arab importers have no such resources, and it would be reasonable to set aside about £1 million to be at the disposal of the Palestine control to meet demands which they are satisfied would not otherwise be met. This £1 million would have to cover all such expenditure outside the sterling area.

7. American reactions

No doubt attempts will be made to misrepresent whatever action we may take. But having regard to the explicit provisions of the Anglo-American Financial Agreement, exception cannot be taken to a reasonable limitation on the drawing down of Palestine's sterling balances. Although we have not blocked any Colonial sterling, we have taken very vigorous steps to see that it is not substantially reduced, and if we achieve

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our objectives, we shall treat Palestine much more favourably than any Colony. The proposals above are already more favourable than the treatment given to India, Egypt, Brazil, Uruguay, etc.

8. Trans-Jordan

The High Commissioner recommends that Trans-Jordan must go out of the Sterling Area at the same time as Palestine. It is very difficult to achieve a complete separation of Trans-Jordan funds from those of Palestine. But there need be no objection to making a complete release, for use by Trans-Jordan only, of any balances which the banks concerned can segregate as being assets of their Trans-Jordan branches. Notes had better follow the Palestine drill, at least until Trans-Jordan can arrange to use a separate currency. Thereafter, any Palestine notes circulating in Trans-Jordan could be redeemed against payment of sterling by the Palestine Currency Board to the new Trans-Jordan Currency authority, whatever it is. Such sterling would be free of restrictions, being in the hands of a resident in the sterling area. It is probable that Trans-Jordan will arrange to separate her currency from that of Palestine in future, either issuing her own, run by a Currency Board, or by using Iraq currency. Once that is accomplished, we can consider her re-admission to the sterling area.

9. The Future

(i) Government balances would be released for payment of the liabilities of the Government of Palestine.

(ii) Commercial balances could be gradually released in the light of circumstances it is not yet possible to foresee.

(iii) The assets of the Palestine Currency Board could eventually be turned over to whatever new authority becomes responsible for the Currency, against surrender of the existing circulation as it was replaced by a new currency. Any balances would have to remain as a reserve of the (old) Currency Board against notes not collected by the new authority, until some satisfactory arrangement could be made to provide for the rights of their holders.
When the new Currency Authority comes into existence, an adjustment will be necessary in the release mechanism, so that the whole of the releases shall be under the control of the new Authority, who will be able to apportion them at their discretion.

(iv) Dollar Releases. In view of the American links, I see no need to make any provision for convertibility into any currency other than sterling. Palestine can utilise her dollar availabilities to secure any other currency she may need. But we may have to consider some small dollar provision for the Arabs, and certainly for Trans-Jordan.

Dollar balances may be necessary for Arabs.

10. The Statistical Picture

Figures provided by the Bank of England are given in Annex II.

R.S.C.

Treasury Chambers, S.W.1.
21st January, 1948.

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ANNEX I

DRAFT STATEMENT

The approaching termination of the Palestine Mandate has made it necessary for His Majesty's Government to consider most carefully what financial arrangements should be made in the interests of the successor Governments in Palestine and of the sterling area in order to preserve the resources of Palestine for the use of the new States and to safeguard the balance of payments position of the United Kingdom. His Majesty's Government are resolved to do all in their power to prevent damage to the financial and economic structure of Palestine during the period of their withdrawal.

During the period of the Mandate, Palestine has been a member of the sterling area. She is also the holder of sterling balances, the present total of which is about £100,000,000, a large amount in proportion to the size of the country. These balances have been drawn on rapidly in recent months. This drain obviously cannot be allowed to go on. It would mean that the resources of Palestine which will be needed for the development of the country would be in danger of being unduly depleted. The drawing down of the balances in this way would also aggravate the balance of payments problem of the United Kingdom and the rest of the sterling area.

As in the case of other countries holding large balances - e.g. India, Egypt and Iraq - the only way in which the drain can be stopped is by blocking the greater part of the balances. His Majesty's Government have decided therefore, for the reasons given above, that the balances of Palestine must be similarly blocked and have taken steps accordingly. In order immediately to provide the resources necessary to carry on Palestine's normal international trade, His Majesty's

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Government will make available during the interim period and subsequently, the resources which they are satisfied are necessary.

For immediate requirements £x millions are being released in order to provide £y millions as working balances for the banks in Palestine and £z millions to be used together with current accruals of sterling, which will be at Palestine's disposal for current expenditure until the middle of May.

The amounts of these releases have been arrived at after careful consideration and consultation with the present administration and His Majesty's Government are satisfied that they should prove amply sufficient to enable Palestine to meet all her needs during that period. Future policy for release from the sterling balances will be the subject of consultation between His Majesty's Government's representative at the United Nations, Sir Alexander Cadogan, and the Commission for Palestine which is now being established by the United Nations, and the views of the Commission will be given full consideration in the formation of policy in regard to future releases. As soon as the Joint Economic Board is established, His Majesty's Government will also initiate discussions with that Board for the same purpose.

2. Should we need them also Treas. Sol.

In the special circumstances of Palestine, where His Majesty's Government must assume that, for a period at least, a thorough and comprehensive exchange control will be lacking, the blocking of the balances would not entirely safeguard the resources of Palestine, so long as the country remained in the sterling area. If His Majesty's Government allowed a situation to continue in which such leakages could occur, they would not be carrying out their responsibilities to the sterling area or to Palestine. They therefore consider it desirable in the interests of both that Palestine should not

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remain a member of the sterling area and she has ceased to be a member therefore from ..... the date on which the balances have been blocked. Should the Successor Governments desire it, His Majesty's Government will be ready to discuss with them the question of their readmission to the sterling area.

As regards currency arrangements, the existing Currency Board, subject to any necessary changes in procedure, will continue to function in the interests of the holders of currency and of Palestine generally pending an orderly transition to whatever arrangements may in due course be made for the future management of the currency. His Majesty's Government hope it will be possible to arrange for the United Nations Commission, if they so desire, to appoint a representative to act as an observer at the deliberations of the Currency Board.

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ANNEX II

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

(Amounts in £ millions)

1. Palestine's Balance of Payments is at present dominated by two factors, (a) heavy military expenditure by the U.K. and (b) support from Jews in America both in cash and kind.

2. The attached statements (which in view of the intended withdrawal make a purely arbitrary guess, at what military expenditure will be in 1948) exclude goods imported free under the Jewish Agency Gift-dollar Scheme. No figures for such imports are available in London but by assuming them to be roughly equal to the difference between recorded imports and recorded payments to U.S.A. and Canada✓ (not an entirely satisfactory method over a short period) the balance of payments on current account may be set out more revealingly as follows:-

£ millions	1946	1947	1948
Imports (c.i.f.)	52½	74	73
Exports (f.o.b.)	17½	19	25
Deficit on visible trade	- 35	- 55	- 48
Net invisibles (including oil)	-	+ 2	- 1
Deficit on ordinary account	- 35	- 53	- 49
Jewish Agency Gifts (very conjectural)			
: in cash	+ 6	+ 4	+ 5
: in kind	+ 3½	+ 7	+ 5
	- 25½	- 42	- 39
Military expenditure	+ 23	+ 18½	+ 8
Cost of camps in Cyprus	-	- 1	- 2½
Deficit on current account	- 2½	- 21½	- 33½

3. So far as the U.K. is concerned the forecasts in the tables are mostly based on Departmental estimates; those for U.S.A., Canada, South and Central America are based on telegrams 1987 and 1988[A] from Palestine.

4. The bulk of the expenditure during the first half of 1948 on the cost of camps in Cyprus represents monies already owing and is due for early settlement.

5. As at present forecast Palestine's sterling balances are likely to be drawn down during 1948 by 33½.

19th December, 1947

✓ The difference between imports from and payments to Canada suggests that Jewish Agency dollars are also being used to purchase goods in Canada.

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SECRET

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

1. CURRENT ACCOUNT

£ millions

	1946	1947					1948		
					Forecast				
PAYMENTS	Year	I	II	III	IV	Year	I & II	III & IV	Year
Imports (c.i.f.)(a)									
United Kingdom	10.9	3.7	2.4	2.5	3.0	11.6	7.5	8.5	16.0
U.S.A.	3.3	1.2	1.1	2.6	3.0	7.9			
Canada	.7	.2	.2	.4	.5	1.3	4.4	1.6	6.0(f)
S. & C. America	1.1	.2	.6	.5	.5	1.8			
Turkey	5.2	1.7	1.2	1.5	1.5	5.9	3.0	3.0	6.0
Other	27.5	8.6	9.6	10.0	10.0	38.2	20.0	20.0	40.0
	48.7	15.6	15.1	17.5	18.5	66.7	34.9	33.1	68.0
Refined Oil(b)	4.2	1.0	1.2	1.3	1.3	4.8	2.0	3.0	5.0
Cost of camps in Cyprus	-	1.2	-	-	-	1.2	2.7	-	2.7
Invisibles: U.K.	.7	.1	.1	.2	.2	.6	.3	.3	.6
: U.S.A.	1.0	.3	.2	.4	.4	1.3	.6	.6	1.2
: Other	?					?			?
Total identified payments	54.6	18.2	16.6	19.4	20.4	74.6	40.5	37.0	77.5
RECEIPTS									
Exports & re-exports (f.o.b.)(c)									
United Kingdom	3.2	3.1	1.4	.8	2.5	7.8	8.3	4.9	13.2
U.S.A.: Diamonds	4.6	.1	.1	.1	.1	.4			
: Other	.5	-	-	-	-	-	.7	.9	1.6
Canada	.1	-	-	-	-	-			
S. & C. America	-	-	-	-	-	-			
Other	8.9	3.5	2.3	2.6	2.5	10.9	5.0	5.0	10.0
	17.3	6.7	3.8	3.5	5.1	19.1	14.0	10.8	24.8
Oil companies expenses	4.2	1.2	1.7	1.8	1.8	6.5	2.5	2.5	5.0
Military expenditure (d)	22.8	5.0	4.7	4.5	4.5	18.7	8.0	-	8.0
Invisibles: U.K.	1.2	.7	.3	.3	.3	1.6	.6	.6	1.2
: U.S.A.(e)	6.8	1.6	.9	1.0	.9	4.4	2.5	2.5	5.0
: Other	?					?			?
Total identified receipts	52.3	15.2	11.4	11.1	12.6	50.3	27.6	16.4	44.0

(a) Excluding crude oil and oil companies equipment and also goods imported free under Jewish Agency Gift-dollar Scheme.

(b) Payments to U.K. companies.

(c) Excluding oil and oil products.

(d) Net of surplus stores disposals, N.A.A.F.I. remittances, etc. but for cost of camps in Cyprus settled through the Crown Agents see PAYMENTS.

(e) Including Zionist Gift-dollars surrendered.

(f) Goods to the value of a further 5.2 are expected free under the Gift-dollar Scheme.

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SECRET

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END

PALESTINE: BALANCE OF PAYMENTS WITH REST OF WORLD

2. SUMMARY

millions

	1946	1947					1948		
					Forecast				
	Year	I	II	III	IV	Year	I & II	III & IV	Year
Identified transactions on Current Account									
Payments	54.6	18.2	16.6	19.4	20.4	74.6	40.5	37.0	77.5
Receipts	52.3	15.2	11.4	11.1	12.6	50.3	27.6	16.4	44.0
Deficit	*2.3	3.0	5.2	8.3	7.8	24.3	12.9	20.6	33.5
Errors and Omissions(a)	3.1	4.2	.7	.6		4.3			
Identified investment/ disinvestment	.8	1.2	4.5	8.9	7.8	20.0	12.9	20.6	33.5

* Figures shown underlined thus are deficits:- 2.3

3. CAPITAL ACCOUNT

millions

Net banking assets in U.K.(b) increase/decrease									
: Government	3.9	.6	ø.7	1.0					
: Currency Board	4.9	3.8	1.9	2.0					
: Commercial	1.1	3.2	1.9	5.9					
	.1	1.2	4.5	8.9	7.8	20.0	12.9	20.6	33.5
Recorded imports of gold	.7								
Other capital movements(a)	?					?			?
	.8	1.2	4.5	8.9	7.8	20.0	12.9	20.6	33.5

ø Figures underlined thus are decreases:- .7

(a) There is reason to suppose that there have been considerable movements of capital into Palestine on private account.

(b) At 30th November, 1947, Government 10.1, Currency Board 43.2, Commercial 44.1, Loan to H.M.G. .8 — 98.2

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